**Comprehensive Annual** Financial Report Year Ended June 30, 2004

# Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

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Audit Date 6/30/04	_	Opinion Date 10/6/04	Dati 12	te Accountant Report Subr	nitted to State		
We have audited accordance with Financial Statematic We affirm that:	the financia the Statem ents for Cour	al statements of this ents of the Govern onties and Local Units	local unit of gove	ernment and rendere	ed an opinio (GASB) a chigan Depa	on on financial stand and the <i>Uniform</i> artment of Treasu	atements prep Reporting Fori
		ne Bulletin for the Aud					
2. We are certifi	ed public ac	countants registered	to practice in Mich	higan.			
We further affirm comments and re-	the following commendation	. "Yes" responses ha ons	ve been disclosed	d in the financial state	ements, inc	luding the notes,	or in the report
		box for each item be					
☐ Yes 🗸 No		n component units/fu		he local unit are excl	uded from	the financial state	ements
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✓ Yes	3. There amend	are instances of no led).	n-compliance with	h the Uniform Acco	unting and	Budgeting Act (	P.A. 2 of 1968
Yes ✓ No	4. The lo require	cal unit has violated ments, or an order is	d the conditions of the Electric transfer of transfer of the Electric transfer of transfer o	of either an order is mergency Municipal	ssued unde Loan Act	er the Municipal	Finance Act of
Yes ✓ No	5. The loc	cal unit holds deposi inded [MCL 129.91],	its/investments w	hich do not commit		ory requirements.	(P.A. 20 of 1
Yes 🗸 No	6. The loc	al unit has been delir	nquent in distributi	ng tax revenues that	were collec	cted for another t	taxing unit.
Yes 🗸 No	7. pension credits a	al unit has violated benefits (normal co are more than the no	the Constitutiona sts) in the current rmal cost requiren	I requirement (Article t year. If the plan is nent, no contributions	e 9, Sectio more than	n 24) to fund cu	rrent year ear
Yes ✓ No		al unit uses credit c 29.241).					
Yes 🗸 No	9. The loca	il unit has not adopte	d an investment p	olicy as required by	P.A. 196 of	1997 (MCL 129.9	<del>9</del> 5).
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e letter of commer	nts and recor	mmendations.				Forwarded	Required
ports on individual	federal finar	ncial assistance prog	rams (program au	udits).	<b>▼</b>		
ngle Audit Reports	(ASLGU).						<b>V</b>
tified Public Accountant	(Firm Name)						<b>✓</b>
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Monroe Avenu	e NW, Suit	te 800		City Grand Rapids		State ZIP 495	:03
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Elected and Appointed Officials June 30, 2004

#### **Elected Officials**

Mayor Roger A. Bergman
Council Members

Michael Fritz
Geri McCaleb

Edward Nieuwenhuis Daryl Tammen

### **Appointed Officials**

City Manager Patrick McGinnis
City Clerk/Treasurer Leah Spinner

Finance Director James Bonamy



November 1, 2004

Mayor Bergman and City Council:

It is with pleasure that we present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This is the second report using the new reporting model as prescribed by the Governmental Accounting Standards Board (GASB) in their Statement 34.

This report has been prepared by the staff of the City of Grand Haven. City Administration holds full responsibility for the completeness and accuracy of all statements, schedules, notes and analysis. To provide a reasonable basis for making these representations, City Administration maintains a system of internal controls to protect City assets from theft, loss, or misuse and to compile reliable information for the presentation of our financial statement in conformity with generally accepted accounting principles. The costs of internal controls should not outweigh the benefits received; therefore, the internal controls have been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. As City Administration, we assert, to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

#### The Reporting Entity

Grand Haven was established in 1834 by Rix Robinson, a trader, who chose this location because of its natural harbor and the opportunity to do business throughout the Grand River valley. In 1867, Grand Haven was incorporated as a City and remains the County Seat of the County of Ottawa (since 1838). With a population of 11,168 counted in the 2000 census, the City of Grand Haven is the primary government for accounting purposes. In addition to the primary government, this financial report also includes three component units:

City of Grand Haven Brownfield Redevelopment Authority,

City of Grand Haven Economic Development Authority, and

City of Grand Haven Central Business District Development Authority.

The City of Grand Haven also provides administrative and financial management under contractual agreements with the following organizations:

- Grand Haven/Spring Lake Sewer Authority, a separate governmental unit,
- Northwest Ottawa Water Treatment Plant, a joint venture of North Ottawa local units of government, and
- Ottawa County Central Dispatch Authority, a component unit of Ottawa County.

The financial reports of these latter three entities, being separate and distinct from the City of Grand Haven, are reported elsewhere and are not included here.

The City of Grand Haven Board of Light and Power, a department of the City by its Charter and an enterprise fund, continues its tradition of presenting its annual financial report under separate cover. This is appropriate due to both the size and complexity of the Board's operations and generally accepted accounting principles. However, due to the nature of the new reporting model as discussed below, significant information is also provided herein. For further detail not shown herein, we recommend viewing the Board's annual report, which is on file at both City Hall and at the Board's offices on Eaton Drive in Grand Haven.

### **Budgeting and Financial Planning**

As part of the City's financial planning process, City Council adopts an annual budget including a five-year Capital Improvement Plan. These two documents address the City's strategy to improve the community and to maintain the health and quality of life of the City. The budget document provides the financial framework for planning and control as well as defines the City Council's vision for the future. The Capital Improvement Plan provides the Council and staff with a strategy for future major capital items and related financial resources that will be required over the next five years to implement Council's vision.

The budget process begins in late fall or early winter with a City Council goal-setting session. Working as a Budget Committee, City Department Heads and the City Manager draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The City Manager is required by City Charter to present a proposed budget to City Council by April 1. After a work session and a separate public hearing, City Council adopts the City's budget by May 15 and sets the tax millage for the new fiscal year at the same time. Interested citizens are invited to participate in the budget planning process at a goal-setting session and at the various work sessions and public hearings.

After the close of the fiscal year, the CAFR is prepared to report on the financial condition of the City and the results of operations. Included in the report are budget-to-actual comparisons of revenues and expenditures. New to the CAFR last year was disclosure of both the original budget and the final amended budget. This disclosure continues in the current document.

#### **Economic Condition and Outlook**

Current national economic conditions, while more positive than in the last three years, continue to present employment challenges for displaced employees and the local economy as a whole. While Grand Haven saw the closing of a number of industries and employment reductions in recent years, new industrial investment included Netshape and fared better here than in other areas of the country. There are signs of continuing improvement in the industrial sector and property values have been maintained.

While the economic climate is showing signs of improvement, the State of Michigan currently faces continuing budget deficits and is considering revising the state shared revenue (renamed community funding) structure and/or payments to partly resolve their budgetary concerns. City Administration conservatively forecasted for Fiscal Year 2004-05, and, to date, the projections appear to match expectations. Further cuts in State funding are possible for FY 2005-06.

City Administration recommended to City Council during the budget process that, should state funding become less than budgeted, the City would not transfer as much funding from the General Fund to the Public Improvement Fund. To date, no discussion with Council has been made while we wait for further developments from the State. However, Department Heads have already been asked to consider what operations and capital costs may be forestalled should further reduction be necessary.

The City has successfully maintained greater than an 11% of revenue reserve in the General Fund to address such contingencies. We believe that, assuming a short-term improvement in the general economic conditions, the City will weather the current conditions adequately.

#### Fiscal Year 2003-04 Initiatives

In spite of the challenges on the revenue side, the City of Grand Haven had another successful year in providing quality services to our citizens. The foresight of the City Council in maintaining a healthy fund balance as noted above has permitted the City to continue to invest in the infrastructure and capital needs of the City. During the past fiscal year, the City was able to make significant improvements to the City including:

Public Works - Chuck Nowak, Director

Replaced Robbins Road from US-31 west (past Sheldon), including water main, sub base, curb and pavement

Remodeled the Public Works Building and upgraded it to comply with Americans with Disability Act regulations

Replaced the Wisconsin Street lift station and water main

The water meter replacement program began, including replacement of electronic registers to Absolute Digital Encoders (ADE)

Eliminated a 10" sanitary sewer under US-31 north of Waverly and rerouted sewer east in the Waverly line

Flushed 880,000 feet of sanitary sewer lines, cleaned 1,007 storm basins, staked for over 1,000 "Miss Dig" requests

Public Safety - Dennis Edwards, Director

Raised sufficient donated funds to purchase water rescue equipment, life vests for each sworn employee and installation of a pier safety sign at the entrance to the Grand River/Lake Michigan Pier

Completed a traffic and parking study to be utilized in conjunction with the City Vision Study

Nearly completed a downtown business/residential fire inspection/preplan program

Purchased tactical patrol rifles for use on regular patrol duties requiring the use of necessary additional fire power to protect our public safety officers when needed

Continued the DARE Program in the Grand Haven schools through generous donations

Obtained through a Countywide Homeland Security Grant providing chemical and biological respirators for each sworn officer

Started the process to purchase a Fire/EMS truck for use on medical emergencies and water rescue calls for service; purchase expected to be completed in 2004/2005 fiscal year

Provided a successful Fire Prevention Week open house for the citizens of Grand Haven

City Clerk/Treasurer Office - Leah Spinner, City Clerk/Treasurer

Made City website information improvements

Directed a new ordinance book supplement

ACH Tax Payments and Receivables Implementation

Treasurer's Monthly Report Implemented

Four Elections Conducted

Coordinated Mayor's Exchange Participation

Coordinated the Boards and Commission Appreciation Dinner

Northwest Ottawa Municipal Cooperation Implemented

Community/Employee Appreciation Picnic and Recognition

Community Services - Sec Garcia, Director

Replacement of the Public Safety 50 ton chiller

Resurfacing the waterfront boardwalk

Replacement of marina docks 1, 2 and 11

Remodeled the R.V. Terrill Public Works Building

City Hall and Annex roof replacements

Planning and Community Development - Erin Kilpatrick, City Planner

Several extraordinary plan reviews and approvals including:

Home Depot and outbuildings

Armory

Scholten & Fant

Grand Haven Boat Storage

Recruitment of new Planner

Master Plan Review

Applied for and received a Washington Avenue Redevelopment Grant from MEDC \$700,000

Downtown Vision Plan

Transportation Division - Julie Bildner, Director

Harbor Transit

Executed MDOT 2002-0040 Z9 in October 2003, in the amount of \$101,320, for Specialized Services. Executed MDOT 2002-0040 Z10 in October 2003, in the amount of \$140,000, for Project Zero. This contract was amended to add an additional \$70,000, bringing the final total to \$210,000. The Project Zero and Specialized Service funds are passed through to Life Services System of Ottawa County.

The Harbor Transit Urban budgets for FY2003 and FY2004 have been filed with the Federal Transit Administration (FTA). Harbor Transit has recently passed compliances for the Federal Civil Rights and Department of Labor. Total federal Section 5307 Operating Assistance due to Harbor Transit for the 2003 & 2004 fiscal periods is \$508,997.

#### Airport

Executed MDOT-AERO Grant in the amount of \$343,000 for the construction and construction supervision of the East-West and North-South Parallel Taxiway project.

The Avigation Project is nearing completion. It is anticipated the tree construction work on the final five parcels will be completed by Spring 2005.

Human Resources - April McGrath, Director

Continued development of the Human Resources Department

Began initiatives to coordinate consistent Human Resources related practices throughout City operations

Began employee benefits providers review for future financial and service benefits

(Jim Bonamy - Finance Director)

Completed upgrades on new financial software including integrated general ledger, payroll, payables, purchase orders and fixed assets systems

Continued monthly financial reporting to City Council and Departments

Continued a fixed assets study in all funds to determine what assets are still being used, to value said assets and to prepare for GASB 34 implementation due June 30, 2005

Provided support and structure to the Audit Review Committee

Continued successful presentation of City Budget and annual unqualified audits

### **Future Major Initiatives**

In FY2003-04, City Council laid the groundwork for future plans and infrastructure, directing that a full-time Planner be added to the City Staff and concentrating focus on infrastructure needs of the City in a broader fashion. The first of these two goals was met in the hiring a Planning Director and coordinating the Building Inspection division under their leadership. The Planning Director left the City's employ in the spring of 2004; the department was reconsidered and a City Planner was hired in July 2004.

The second initiative began a series of discussions on infrastructure, first defining engineering assistance to determine needed improvements, then seeking financial alternatives on when and how to address these needs. The S.W.I.S.S. Project, (Sewer, Water, Infrastructure, Streets and Sidewalks) was developed through the engineering resources of Fishbeck, Thompson, Carr and Huber and is beginning to serve the City in planning and cost estimates for major priorities. Concurrent reviews in fiscal year 2004-05 by ad hoc Planning and Finance Committees will continue the process. The City's four-decades-long history of "pay as you go," while greatly beneficial, efficient and fiscally conservative, leaves several large projects which need the City's current attention.

Additional 2004 initiatives in process include combining the Hyett Palma Blueprints Study, the Wade-Trim Transportation and Parking Study and the Downtown Visioning Study by Johnson Hill Land Ethics Studio. These studies serve to focus on infrastructure issues downtown and provided reconsideration of current land use and possible alternatives. Spinning off from these initiatives include additional studies including a tax increment financing study and a waterfront strategic planning process. Also, significant reinvestment in the downtown areas include a \$700,000 grant from the Michigan Economic Development Corporation for land acquisition for downtown parking resulting in two confirmed redevelopments of downtown sites and two more on the near horizon.

#### **New Reporting Model Format**

This is the second year of a new reporting format required by the Governmental Accounting Standards Board. It will be significantly easier for readers of this document to compare outcomes with last year's document. The format of the CAFR using GASB Statement 34 guidelines is significantly different from years before the fiscal year ended June 30, 2003. The objective of the new model is to increase accountability of the City by providing more useful information to a wider range of users. A few of the more significant changes include:

Certain financial information has been moved from the transmittal letter to the Management Discussion and Analysis (MD&A). This provides a more in-depth review and discussion of the City's financial position. GASB Statement 34 provides very specific guidance for topics that must be covered in the MD&A. Many of the key financial topics are covered by the MD&A, which can be found immediately after the auditors' opinion letter.

For the second time and continuing into the future, entity-wide statements are presented on a full accrual basis of accounting. An initiative during Fiscal Year 2002-03 to verify all City assets was instituted by the Finance Office with considerable assistance from all operating departments. While not required under the GASB 34 initiative, this updated list confirmed asset values for last year's and this CAFR and serves as the foundation for future reports. Streets, bridges, and sidewalks have been included in the Statement of Net Assets as capital assets which are depreciated. Long-term debt has been reported. The full accrual method addresses overall operating results and the financial position of the City as an economic entity, as is done in the private sector.

In the basic financial statements, individual fund activity is disclosed for major funds. Non-major funds are combined in one column. Reporting by major fund helps readers focus attention on "big picture" items. As in prior years, the individual statements for governmental type activities are reported on a modified accrual basis. This means that all non-entity-wide statements require reconciliation schedules to the entity wide statements.

Because of the differing basis of accounting (full accrual vs. modified accrual), numbers will not easily trace to the entity-wide statements without the reconciliation. The modified accrual basis accounting is the traditional method used for governmental activities. The modified accrual method provides an easier framework for budgeting and controlling expenditures.

Once readers understand how the new model works, the new format is anticipated to be preferred because of the additional information available.

#### **Independent Audit**

State statute and the City Charter require an annual financial audit by an independent certified public accountant. In May 2003, City Council selected the accounting firm of BDO Seidman, LLP, Certified Public Accountants, who will provide auditing services for this and the next four annual reports. In the summer of 2004, BDO Seidman, LLP sold its Muskegon office to former BDO Seidman, LLP partners. Pridnia LaPres, PLLC provides the same auditing staff once provided by BDO Seidman, LLP, plus, as a BDO Alliance Partner, their audit work with supervision from BDO Seidman, LLP, will be approved and published under the BDO Seidman, LLP letterhead.

The audit was designed to meet the requirements of the federal Single Audit Act of 1984, as amended and related OMB Circular A-133. The auditors' report on the fair presentation of the financial statements, the internal controls, and compliance with legal requirements. The Federal Awards Report is issued separately.

#### Acknowledgments

The work of preparing the financial report has required the help and assistance of many people. The staff of the Finance Department and the Treasurer's Office, in particular, spent many hours working on this project. Susan LaPage, Accounting Supervisor, deserves special thanks for her efforts in organizing and directing the audit preparation work.

Additionally, the positive financial position the City of Grand Haven displayed in this CAFR could not have been achieved without the significant efforts of the City's Administrative Staff and Department Directors in their adherence to City Council defined policies and effective administrative procedures. Our appreciation and congratulations on a job well done are hereby offered to:

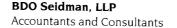
Julie Bildner, Director of Transportation
Dennis Edwards, Director of Public Safety
Sec Garcia, Director of Community Services
Erin Kilpatrick, City Planner
Charles Nowak, Director of Public Works
April McGrath, Director of Human Resources
Leah Spinner, City Clerk/Treasurer
John Stuparits, Wastewater Superintendent and
Joseph VanderStel, Water Plant Manager

Additional appreciation is offered to Charles Bevelheimer, Former Director of Planning and Community Development, Daniel Czarnecki, Former Director of Public Works, Daniel Shaw, Interim Director of Public Safety and Carrie Larks, Former Assistant to the City Manager for their insight and efforts during the fiscal year reported herein.

Sincerely,

Patrick McGinnis City Manager

James P. Bonamy, CPFA Finance Director





99 Monroe Avenue NW, Suite 800 Grand Rapids, Michigan 49503-2654 Telephone: (616) 774-7000 Fax: (616) 776-3680

### **Independent Auditors' Report**

To the Honorable Mayor and City Council City of Grand Haven, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Haven, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Grand Haven's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Grand Haven, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress on pages 21 through 30 and pages 78 through 81 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grand Haven's basic financial statements. The combining funds statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining funds statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2004, on our consideration of the City of Grand Haven's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Grand Rapids, Michigan

BDO Silma, UP

October 6, 2004

#### 1) Financial Highlights

- a) In all material regards, the City of Grand Haven ended the fiscal year in overall better financial position than it started the year. All funds ended the year with positive fund balance with the exception of the Brownfield Redevelopment Authority Fund, a component unit fund. The Health Benefits Fund, an internal service fund, significantly improved its net assets position during the year, ending the prior year's deficit. General Fund total expenditures finished under budget. Overall debt was higher due to completion of a series of Installment Purchase Agreements with Fifth Third Bank to fund the purchase of GrandWater project property being greater than payments on principal for the year. Net assets were revalued in the proprietary funds during the previous fiscal year to meet actual holdings and GASB requirements for June 30, 2003. No further revaluing in proprietary funds is expected except for current year changes. The City will complete its governmental assets GASB requirements by June 30, 2005 as required.
- b) Governmental activity net assets totaled \$27,109,595.
- c) Business-type activities net assets totaled \$27,242,823.
- d) Total expenses for governmental activities totaled \$8,170,315.
- e) Total expenses for business-type activities totaled \$29,679,983.
- f) The General Fund is healthy as net assets increased by \$104,354. Year end net assets for the General Fund totaled \$1,933,830, up from \$1,829,476 at June 30, 2003.
- g) The Brownfield Redevelopment Authority Fund deepened its fund deficit position of \$494,416 as of June 30, 2003 to \$1,285,594 as anticipated due to additional pre-development costs during the fiscal year. This deficit will continue until a Brownfield Tax Increment Financing Bond is approved and reimburses the costs (currently paid from funds borrowed on an interfund loan basis from the Public Improvement and Economic Development Corporation Funds. A bond proceeds reimbursement resolution related to these issues was adopted by City Council in March 2003.)
- h) The Health Benefits Fund deficit net assets balance position of \$111,394 on June 30, 2003 was replaced with positive net assets of \$153,694 on June 30, 2004, due to increased charges and reduced expenditures applied to operating funds sufficient to cover costs.

#### 2) Overview of Financial Statements

a) Overall financial picture.

The financial statements provide two views of the City's financial position. At the broadest level, also called the Government-wide statements, the statements summarize all City funds into one statement using the full accrual method of accounting. This method of accounting is similar to private sector accounting.

i) Statement of Net Assets

The Statement of Net Assets provides information on assets, liabilities and the difference between assets and liabilities, or net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition. The *Statement of Net Assets* is similar to a balance sheet in private sector accounting.

ii) Statement of Activities

The Statement of Activities explains the change in net assets through revenue and expense analysis and comparison. All changes in net assets are reported as the change occurs. This means the statement includes depreciation on the assets. The statement does not report any capital projects. Capital projects are reported on the Statement of Net Assets.

#### b) Fund Focus

Traditional governmental accounting focused on individual governmental funds. These funds have not disappeared. As in the former financial model, a fund is defined as a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used to ensure compliance with finance-related legal or regulatory compliance. Funds are classified as either governmental funds, proprietary funds or fiduciary funds.

#### i) Governmental Funds

Governmental funds are essentially equal to governmental activities except that internal service funds are proprietary funds included in governmental activities. Internal service funds are not governmental funds. Governmental funds use a modified accrual basis of accounting and focus on near-term inflows and outflows of spendable resources and the balances of spendable resources. In the governmental funds statements, accounting for items such as capital outlay, depreciation, debt payments, and accrued vacation is different than in the government-wide statements. In governmental funds, capital outlay and debt principal are reported on the *Statement of Revenues, Expenditures and Changes in Fund Balance*. Depreciation is not recorded. The rule for reporting accrued vacation is more restrictive. The *Balance Sheet* for governmental funds does not include any capital assets or long-term debt.

#### (1) Major Funds

Under GASB Statement 34, the focus has shifted from the governmental fund type to a major funds emphasis. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. Greater detail is presented in Major Funds. For the City of Grand Haven, the following funds meet this major funds requirement:

- General Fund
- Public Improvement Fund
- Board of Light and Power Fund

Note that the Board of Light and Power Fund issues its own annual financial report. Detail regarding its operations not found in this report may be found in that separate report.

#### (2) Non-major funds

In the basic financial statements, the remaining funds are considered non-major funds and are consolidated into one column. These are smaller, less active funds. Detailed information about non-major funds can be found after the Notes to the Financial Statements.

#### ii) Proprietary Funds

Proprietary funds use the full accrual method of accounting for both government-wide statements and fund level statements. There are two types of proprietary funds.

- (1) Enterprise funds are used to report business-like activities. In general, these funds charge a fee for goods or services provided. Also, the fee is expected to recover the cost of providing the goods or services. The City of Grand Haven uses enterprise funds for water distribution, wastewater collection, transit, marina, airport and the Board of Light and Power (BLP). The BLP fund qualifies as a major fund as noted above.
- (2) Internal service funds provide goods or services to other city activities or functions. Internal service funds facilitate cost allocation of centralized services such as vehicle maintenance; health benefits; liability, property and auto insurance; worker and unemployment compensation; and claims administration. The City of Grand Haven has three internal service funds, the Motorpool Fund, the Self Insurance Fund and the Health Benefits Fund.

#### iii) Component Units

The City of Grand Haven's Comprehensive Annual Financial Report (CAFR) includes three component units. Component units are separate legal entities for which the City of Grand Haven has some level of financial accountability. Component units are shown in a separate column. The City of Grand Haven's component units include the Brownfield Redevelopment Authority, the Economic Development Corporation and the Central Business District Development Authority. More information about the component units can be found in the notes to the financial statements.

#### c) Notes to the Financial Statements

Immediately after the government-wide financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of the City.

#### 3) Financial Analysis

#### a) Net Assets

The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. As mentioned above, this can provide a good indicator of the City's fiscal health over time. A comparative analysis of government-wide data is presented pursuant to GASB requirements.

Below is a summarized version of the Statement of Net Assets:

#### City of Grand Haven, Michigan Net Assets

	A:	s of June 30, 20	004	As of June 30, 2003					
	Governmental Activities	Business- Type Activities		Governmental	Business- Type Activities	Total			
Current and other assets Capital assets	\$ 12,034,783 20,681,583	\$ 39,223,707 60,209,227	\$ 51,258,490 80,890,810	\$ 10,720,359 18,535,065	\$ 41,796,721 59,252,526	\$ 52,517,080 77,787,591			
Total Assets	32,716,366	99,432,934	132,149,300	29,255,424	101,049,247	130,304,671			
Long-term debt Other liabilities	3,625,388 1,981,383	61,602,721 10,587,390	65,228,109 12,568,773	2,145,656 1,813,015	64,857,165 8,626,790	67,002,821 10,439,805			
Total Liabilities	5,606,771	72,190,111	77,796,882	3,958,671	73,483,955	77,442,626			
Net assets invested in capital assets, net of related debt Restricted Unrestricted	17,670,665 1,957,457 7,481,473	14,973,465 3,771,474 8,497,884	32,644,130 5,728,931 15,979,357	17,813,159 1,194,696 6,288,898	15,141,685 3,825,547	32,954,844 5,020,243			
Total Net Assets			\$ 54,352,418	\$ 25,296,753	\$,598,060 \$ 27,565,292	14,886,958 \$ 52,862,045			

The total net assets of the City are \$54,352,418. Investment in capital assets including infrastructure totals \$166,481,586, of which \$85,590,776 is depreciated. The single largest category in capital assets is the City's investment production and treatment systems of \$87,152,974. Of the more liquid assets, \$5,728,931 is restricted. The City has \$15,979,357 in unrestricted net assets.

#### Changes in Net Assets

i) Governmental Activities Highlights

The following table shows how activities effect changes in net assets during the fiscal year.

#### City of Grand Haven, Michigan Changes in Net Assets

Activities	Type Activities  \$ 26,707,607	Total	Governmental	Business- Type Activities	Tota
Activities 1,448,163	Activities \$ 26,707,607	Total		Туре	Tota
1,448,163	\$ 26,707,607		Activities		Tota
		\$ 28,155.770			
		\$ 28,155,770			
		\$ 28,155,770			
927,268	1 205 450	,-	\$ 1,426,618	\$ 27,668,559	\$ 29,095,177
\$ 1,448,163 \$ 26,707,607 \$ 28,155,770 \$ 1,426,618 \$  927,268 1,205,159 2,132,427 1,700,984  6,119,292 - 6,119,292 5,754,948  18 1,113,365 - 1,113,365 1,201,815  140,567 352,816 493,383 203,201 197,649 1,188,700 1,386,349 304,056  9,946,304 29,454,282 39,400,586 10,591,622  2,552,596 - 2,552,596 2,512,306 3,214,168 - 3,214,168 2,952,182 1,711,129 - 1,711,129 1,258,042  662,969 - 662,969 606,189  - 24,502,571 24,502,571 - 5,177,412 5,177,412 -  8,140,862 29,679,983 37,820,845 7,328,719  1,805,442 (225,701) 1,579,741 3,262,903 (26,600) - (26,600) (27,000)	1,662,920	3,363,904			
6,119,292	-	6,119,292	5,754,948	-	5,754,948
1,113,365	-	1,113,365	1,201,815	-	1,201,815
				755,095 43 128	958,296 347,184
9,946,304	29,454,282	39,400,586			40,721,324
	-	2,552,596	2.512.306		2,512,306
	-			_	2,952,182
1,711,129	-			-	1,258,042
662,969	-	662,969	606,189	-	606,189
-	24,502,571	24,502,571	-	25,349,762	25,349,762
-	5,177,412	5,177,412		2,955,499	2,955,499
3,140,862	29,679,983	37,820,845	7,328,719	28,305,261	35,633,980
	(225,701)			1,824,441	5,087,344
(20,000)	<del></del> -	(20,000)	(27,000)	-	(27,000)
,778,842	(225,701)	1,553,141	3,235,903	1,824,441	5,060,344
,330,753	27,468,524	52,799,277	22.060.850	25 7 <b>4</b> 0 851	47,801,701
	140,567 197,649 9,946,304 2,552,596 3,214,168 1,711,129 662,969 	140,567 197,649  352,816 1,188,700  9,946,304  29,454,282  2,552,596  3,214,168  1,711,129  662,969  - 24,502,571  - 5,177,412  3,140,862  29,679,983  1,805,442 (225,701)  ,778,842 (225,701)  ,778,842 (225,701)	140,567 197,649       352,816 1,188,700       493,383 1,386,349         9,946,304       29,454,282       39,400,586         2,552,596 3,214,168 1,711,129       -       2,552,596 3,214,168 1,711,129         662,969       -       662,969         -       24,502,571 24,502,571       24,502,571 5,177,412         -       5,177,412 3,140,862       37,820,845         1,805,442 (26,600)       (225,701) -       1,579,741 (26,600)         ,778,842       (225,701) 1,553,141       1,553,141         ,330,753       27,468,524       52,799,277	140,567 352,816 493,383 203,201 197,649 1,188,700 1,386,349 304,056  9,946,304 29,454,282 39,400,586 10,591,622  2,552,596 - 2,552,596 2,512,306 3,214,168 - 3,214,168 2,952,182 1,711,129 - 1,711,129 1,258,042  662,969 - 662,969 606,189  - 24,502,571 24,502,571 - 5,177,412 - 5,177,412 5,177,412 - 3,140,862 29,679,983 37,820,845 7,328,719  1,805,442 (225,701) 1,579,741 3,262,903 (27,000)  1,778,842 (225,701) 1,553,141 3,235,903  1,778,842 (225,701) 1,553,141 3,235,903	140,567

#### (1) Revenue sources and changes

Total revenue from all sources totaled \$39,400,586 of which \$9,946,304 was from governmental activities and \$29,454,282 was from business-type activities. Total revenue from governmental activities is \$9,946,304, of which 61.52% or \$6,119,292 is from property taxes. The millage rate remained unchanged from the prior year. Another 11.19% or \$1,113,365 in revenue was from unrestricted state shared revenue. 14.56% or \$1,448,163 of governmental activities revenue was funded through charges for services.

#### (2) Expenses and expenditures changes

#### (a) Overall cost

Using a full accrual basis of accounting, the City of Grand Haven spent \$8,140,862 on governmental activities. From this perspective, the City depreciates capital assets including infrastructure such as streets and sidewalks. The expenses shown do not include new capital assets such as GrandWater properties. The City spent \$3,214,168 on public safety or 39.48% of the budget. General government was the next largest item with \$2,552,596 or 31.36% of the budget. Public works activities totaled \$1,711,129 or 21.02% of the budget and culture and recreation expenses totaled \$662,969 or 8.14% of the budget.

#### (b) Operating transfers

Significant transfers of funds between governmental funds occurred during the year. Transfers out of the General Fund totaled \$1,292,726, the greatest portion of these being transferred into the Public Improvement Fund within the total of \$1,030,726. These transfers occur on an annual basis, but for clarity of reporting are noted here.

#### ii) Business-Type Activities - Highlights

Business-type activities show a decrease in net assets of \$225,701 from revenues of \$29,454,282. The largest source of revenue was from charges for services of \$26,707,607 or 90.67% of revenues for business-type activities. Charges for services of non-major proprietary funds are further detailed as follows:

•	Wastewater	\$1,379,898
•	Water	1,149,262
•	Transit	284,055
•	Marina	259.274
•	Airport	102 544

As the Board of Light and Power produces its own audited annual financial report, further information on their activities may be obtained from that document.

Wastewater and water are the largest business-type activities after the Board of Light and Power at \$1,413,021 and \$1,424,140 in expenses, respectively.

#### (1) City Water (Distribution)

The City Water Fund is a capital intensive activity. In recent years, the fund has been showing an increase in net assets, but it is showing a slight decrease in cash flow anticipated by the current water rates and various capital projects. The City's S.W.I.S.S. infrastructure project includes water distribution line replacement to determine whether the current "pay as you go" policy is sufficient for future needs. New meter reading technology is also under consideration. The FY2004-05 budget includes funds to study the water distribution system and to determine the best method of managing future system maintenance. With the continuing implementation of new regulatory requirements for selected water treatment systems, capital needs for the fund will be increasing.

Note that this fund handles only the distribution of water to City of Grand Haven customers and purchases its treated water from the Northwest Ottawa Water System (NOWS) Fund, a joint venture of Northwest Ottawa communities. Note also that the NOWS Fund is working on south intake system issues and anticipates a substantial increase in the size of the water plant within five years.

#### (2) City Sewer (Collection)

The City Sewer Fund has a sufficient cash position at \$193,629. With operating revenues of \$1,409,304, the fund had a decrease of \$7,996 in net assets. The fund has sufficient reserves to meet its cash flow and capital needs for the immediate future; however, should larger projects be warranted, the City may need to consider borrowing to attain the funding. City Administration, through the S.W.I.S.S. project under the direction of City Council, is looking at major infrastructure projects including wastewater collection lines to determine whether the current "pay as you go" policy is sufficient for future needs. The FY2004-05 budget includes funds to study the system and determine the best method of managing future collection system maintenance.

#### (3) Harbor Transit

The City owns and operates a demand-response bus system, funded by a combination of bus fares, property taxes and grants from state and federal partners. Major capital assets are usually purchased with grants from the State and Federal governments. The Harbor Transit Fund has \$310,519 in cash and investments.

The biggest challenge facing the transit system is the City's entry into direct Federal aid for operations which includes a revised capital component. As the City of Grand Haven is now part of the Muskegon Metropolitan Statistical Area pursuant to the 2000 Census, coordination with the Muskegon Municipal Planning Organization is crucial to maintaining and advancing transportation needs for the City and North Ottawa area residents. City elected officials and management continue to work with our elected officials in Lansing to maintain the current reimbursement formula.

During the fiscal year, the City received notice from Spring Lake Township that the services provided to the Strawberry Point area would be discontinued by June 30, 2004. This small reduction in service area will not greatly affect Harbor Transit funding or expenditures.

#### (4) Marina

Fiscal needs of the Marina Fund are consistent with infrastructure assets reaching the end of their useful life, especially docks. City Administration is considering alternatives to and funding from the State and other agencies for renovating the Marina and extending the useful life of current assets. The FY 2004-05 Budget anticipates the repair of two docks using local funds; however, local resources do not meet the need for complete dock replacement on their own.

#### (5) Airport

The Airport Fund continues to pay on its newest hangars and remains in a positive position. The avigation easement project continued during the fiscal year with the remaining easement agreements arrived at through arbitration. Operationally, the airport remains viable, but revenue closely matches expenditures. The increase in net assets noted in this report is largely grant funding provided for the avigation easements.

Under consideration is the construction of a three-unit commercial hangar structure costing approximately \$800,000, funding coming from State (2 and1/2%) and Federal (95%) sources. Construction could occur in the Spring of 2005 pending City Council approval.

#### 4) Financial Analysis of Individual Funds

#### (1) General Fund

The General Fund had revenues of \$8,823,101 and \$7,415,797 in expenditures. The expenditures represent reductions against final budgets anticipated. Net transfers to other funds and component units were \$1,302,950, the largest going to Public Improvement Fund and Major and Local Streets Funds, pursuant to millage receipts and direction of City Council. Net assets increased by \$104,354. While there were a few adjustments to the original General Fund budget, the final budget did not increase from the original budget, anticipating revenue shortfalls, primarily from State sources. General Fund expenditures overall (excluding operating transfers out) were within budget.

For FY 2004-05, City Council's budget resolution requires City Council approval of cumulative transfers over \$1,000 in General Fund line items and provided department-level total approval in that Fund. The remaining Funds have been approved on a "whole fund" basis.

#### (2) Public Improvement Fund

The Public Improvement Fund posted revenue of \$106,801 and expenditures of \$2,281,594. Net transfers to other funds totaled \$174,085 while transfers to the Public Improvement Fund totaled \$1,030,726. Also, the Public Improvement Fund received \$1,662,777 in proceeds from issuance of long-term debt to purchase property for the GrandWater project area.

#### (3) Board of Light and Power Fund

As the Board of Light and Power produces its own audited annual financial report, further information may be obtained from that document.

#### 5) Capital Assets and Debt Administration

#### a) Capital assets

#### i) Summary of capital assets

The City of Grand Haven has \$80,890,810 invested in capital assets net of depreciation, \$20,681,583 under governmental activities, and \$60,209,227 in business-type activities. The major investments are in Major and Local Streets under the governmental activities and in property, plant and distribution/collection systems within the Board of Light and Power, City Sewer and City Water Funds. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life greater than one year. Capital assets includes: land, land improvements, streets, sidewalks, buildings, equipment and utility systems such as the J. B. Sims (electric generation) plant and electric, water and sewer lines. The City uses straight line depreciation for all depreciable assets.

Some of the major capital purchases during the year included:

- Purchase of property within the GrandWater project area through installment purchase agreement proceeds
- Continuing investment in street resurfacing, water and sewer line maintenance and replacement

For more complete information please see Note 4 in the Notes to the Basic Financial Statements elsewhere in this document.

#### ii) Discussion of future plans

Annually, the City Council considers and publishes a five-year Capital Improvement Plan. The Plan lists all major capital items that the City Council, various City Boards and staff envision will be needed over the next five years. Listed major projects for the next two years include:

- Continuing pre-development costs for GrandWater project
- Payments on ladder truck and land acquisitions loans
- Parks, infrastructure and building repairs and maintenance
- Computer technology improvements, primarily replacements of hardware and software maintenance and upgrades

#### 6) Debt

#### a) Summary of debt

The City of Grand Haven had \$65,228,109 in debt outstanding as of June 30, 2004. During the fiscal year, the City issued debt in the form of a Master Installment Purchase Agreement for the purchase of property to be included in the GrandWater development. While the total approved agreement was written for \$3,200,000, payable over six years, the City accessed \$894,769 prior to June 30, 2003 and \$1,662,777 by June 30, 2004. The total debt anticipated is \$2,557,546. In addition, the City signed a Core Communities Initiative loan with the State for \$250,000, payable over 14 years. Both of these debts were issued for the purchase of property in the GrandWater project area.

#### b) Anticipated debt

The City's current bonded indebtedness is anticipated to increase during coming years. The S.W.I.S.S. project analysis shows over \$21,000,000 in high priority improvements. Planning for downtown and waterfront improvements may require tax increment financing outside of the S.W.I.S.S. project, at present unknown as to total cost. Also, upon sale of GrandWater property to a private developer, the Brownfield Redevelopment Authority plans to issue tax increment financing based on future tax revenue from the area.

Note 5 of the notes to the financial statements offers more detailed information on debt and other obligations.

#### 7) Economic Forecast

a) The City of Grand Haven has three main sources of revenue. These include property taxes, utility charges, and state shared revenue. The economic forecast for the community is dependent on these three revenues, as discussed below.

#### i) Tax Base

The annual change in taxable value and state equalized value of the City is closely tracked through the Assessing Division. The following table shows property values for the past three years as well as the property valuation that will be used in the FY2004-05 property tax calculations. State Equalized Value (SEV) is the Assessor's estimate of 50% of market value (also called "true cash" value). Property taxes are calculated on taxable value, not SEV.

Pursuant to 1994's Proposal A and related legislation, annual taxable value growth is capped, by state constitution, to 5% or the rate of inflation, whichever is less. In the year when property sells, the taxable value becomes uncapped and equal to SEV.

In future years, significant improvements to taxable value and SEV will include the GrandWater project and various commercial, industrial and residential additions. Some reduction in taxable value has occurred with various business and industrial closings during the fiscal year herein reported.

# City of Grand Haven, Michigan State Equalized Values

Fiscal Year	 Real	 Personal	 IFT	Total
2000-01 2001-02 2002-03 2003-04 2004-05	\$ 360,958,800 383,610,600 411,835,550 437,722,500 459,525,400	\$ 59,146,800 60,145,950 57,828,500 53,786,150 57,125,500	\$ 39,583,200 36,685,750 37,219,850 31,232,000 29,358,750	\$ 459,688,800 480,442,300 506,883,900 522,740,650 546,009,650

#### City of Grand Haven, Michigan Taxable Value

Fiscal Year	 Real	 Personal	iFT	 Total
2000-01 2001-02 2002-03 2003-04 2004-05	\$ 314,012,382 332,895,523 353,703,339 366,985,988 387,279,063	\$ 59,146,800 60,145,950 57,828,500 53,786,150 57,125,500	\$ 39,242,970 36,246,428 36,814,619 30,952,250 29,194,212	\$ 412,402,152 429,287,901 448,346,458 451,724,388 473,598,775

#### ii) State Shared Revenue

State shared revenue is the second largest source of revenue for the General Fund. It represents 11.19% of General Fund revenue. State shared revenue is made of two components and based on the State sales tax rate of 6%. The constitutional component is based on the former 4% sales tax. This portion cannot be adjusted by the legislature. The statutory component is based on the additional 2% added to the state sales tax and can be adjusted by the state legislature. In both components, the overall distribution is dependent on the collection of the state sales taxes. When the economy and sales diminish, the revenue stream is reduced. When the economy and sales improve, revenue may increase, although in recent years, there has been a substantial reduction maintained. Therefore, the City of Grand Haven's General Fund is partially dependent on the overall State of Michigan economy.

In preparing the annual budgets, City Administration uses the Michigan Department of Treasury's estimates as published on their web site. Current forecasts of state shared revenues show decreases in revenue from FY1998-99 forward. Management believes that the FY2004-05 budget was prepared with recognition of the softening economy and anticipates further reduction of the statutory portion. The current fund balance will enable the City to weather any likely reductions in FY2004-05 state shared revenue; however, conservative estimates for the future will likely be needed.

#### iii) Utility Charges for Services

From an entity-wide perspective, utility charges for services are the third major revenue source. Utility service sales are affected by the economy and by the weather for residential customers and by the general economic conditions of local industries. For the FY2003-04 budget, City Administration forecasted that units of sales will be roughly equal to FY2002-03 volumes.

### 8) Contacting the City's Financial Management Staff

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at 519 Washington Avenue, Grand Haven, Michigan 49417, or call us at 616 842-3210, or e-mail us at the addresses noted below:

Patrick McGinnis City Manager pmcginnis@grandhaven.org

James P. Bonamy, CMFA Finance Director jbonamy@grandhaven.org

# Basic Financial Statements

	Primary Government						
June 30, 2004	Governmental Activities	Business-Type Activities	Total				
Assets			Total				
Cash and cash equivalents Receivables:	\$ 8,955,557	\$ 22,001,225	\$ 30,956,782				
Accounts	386,916	2,765,590	3,152,506				
Intergovernmental	1,274,874	439,842	1,714,716				
Assessments	150,286	54,792	205,078				
Interest Proposid items	· -	18,935	18,935				
Prepaid items Internal balances	87,416	62,202	149,618				
Inventory	1,137,236	(104,883)	1,032,353				
Restricted assets (Note 1)	42,498	3,920,677	3,963,175				
Capital assets net of accumulated damagical assets	-	9,541,879	9,541,879				
Capital assets, net of accumulated depreciation (Note 4) Deferred charges	20,681,583	60,209,227	80,890,810				
<u> </u>		523,448	523,448				
Total Assets	32,716,366	99,432,934	132,149,300				
Liabilities							
Payables:							
Accounts	702,161	2 157 050					
Intergovernmental	702,101	2,157,959	2,860,120				
Accrued liabilities	100,139	24,146 899,001	24,146				
Current liabilities payable from restricted assets (Note 1)	100,139	5,770,405	999,140				
Long-term debt (Note 5):	_	3,770,403	5,770,405				
Due within one year	749,923	65,603	915 506				
Due in more than one year	2,875,465	61,537,118	815,526 64,412,583				
Unearned revenues	1,179,083	1,735,879	2,914,962				
otal Liabilities	5,606,771	72,190,111	77,796,882				
let Assets		7	, , , , , , , , , , , , , , , ,				
Investment in capital assets net of related debt	17 (70 (65	4.4.					
Restricted for:	17,670,665	14,973,465	32,644,130				
Capital projects	475 000						
Debt service	475,800	2 771 474	475,800				
Perpetual care	210,424 1,271,233	3,771,474	3,981,898				
Unrestricted	7,481,473	9 407 994	1,271,233				
et Assets	\$ 27,109,595	8,497,884	15,979,357				
	Ψ 41,109,393	\$ 27,242,823 \$	54,352,418				

## **Statement of Net Assets**

	Component Units	
Economic Development Corporation	Central Business District Development Authority	Brownfield Redevelopment Authority
\$ 34,911	\$55,473	\$ 90,386
-	-	-
-	-	-
-	-	-
442,465	-	(1,334,475)
•	-	(1,554,475)
-	-	-
		-
477,376	55,473	(1,244,089)
682	4,331	41,505
-	_	-
-	-	-
10,000	-	_
20,000	<del>-</del>	-
30,682	4,331	41,505
		11,505
-	-	-
_	_	
-	-	-
446,694	51,142	(1,285,594)
\$446,694	\$51,142	\$ (1,285,594)
	+,112	\$ (1,200,074)

The accompanying notes are an integral part of this statement.

			Program Revenues									
Year ended June 30, 2004		Expense	S	Charges for Services	Gra	perating onts and butions		apital ts and itions		Total		
Primary Government Government activities: General government Public safety Public works Culture and recreation Debt service: Interest	\$	2,552,596 3,214,168 1,711,129 662,969 29,453	; )	5 1,228,152 30,994 189,017	\$	45,703		1,565 - -	\$	1,309,717 30,994 1,034,720		
Total Government Activities		8,170,315		1,448,163	8-	45,703	81	,565		2,375,431		
Business-Type Activities Board of Light and Power Other proprietary funds		24,502,571 5,177,412		23,503,168 3,204,439		05,159		- -		3,503,168 4,409,598		
Total Business-Type Activities		29,679,983		26,707,607		05,159				7,912,766		
Total Primary Government	\$ 3	37,850,298	\$	28,155,770		50,862	\$81	,565		0,288,197		
Component Units Economic Development Corporation Central Business District Development Authority Brownfield Redevelopment Authority	\$	3,372 77,479 791,321	\$	- -	\$	-	\$	-	\$	-		
Total Component Units	\$	872,172	\$	-	\$		\$	-	\$	-		

# Grants and contributions not restricted to specific programs Interest income Miscellaneous Transfers Total General Revenues, Special Items, and Transfers Change in Net Assets

Net Assets, beginning of year, as restated (Note 16)

Net Assets, end of year

**General Revenues** Taxes

### **Statement of Activities**

tet (Expense) Reve	enue and Changes			Component Units	
Governmental	Primary Government Business-Type Activities		Economic Development Corporation	Central Business District Development Authority	Brownfield Redevelopmen Authority
\$ (1,242,879) (3,183,174) (676,409) (662,969)	\$ - - -	\$ (1,242,879) (3,183,174) (676,409) (662,969)	\$ - - - -	\$ - - -	\$
(29,453)		(29,453)	-	_	
(5,794,884)		(5,794,884)	-	_	
-	(999,403) (767,814)		-	-	-
	(1,767,217)	(1,767,217)	-	_	
(5,794,884)	(1,767,217)	(7,562,101)	-	-	
-	-	-	(3,372)	- (77,479)	
-		<u> </u>		-	(791,321
	_	-	(3,372)	(77,479)	(791,321
6,119,292	-	6,119,292	-	51,396	-
1,113,365 140,567 227,102 (26,600)	352,816 1,188,700	1,113,365 493,383 1,415,802 (26,600)	2,431 4,025 11,600	12,365 1,439 15,000	143
7,573,726	1,541,516	9,115,242	18,056	80,200	140
1,778,842	(225,701)	1,553,141	14,684	2,721	(791,178)
25,330,753	27,468,524	52,799,277	432,010	48,421	ŕ
\$ 27,109,595		5 54,352,418	\$446,694	\$ 51,142	(494,416) \$ (1,285,594)

The accompanying notes are an integral part of this statement

# **City of Grand Haven**

### Governmental Funds Balance Sheet

June 30, 2004	General Fund	Public Improvement Fund	Non-Major Governmental Funds	Tota Governmenta Funds
Assets				1 unu
Cash and cash equivalents Due from other governments Receivables:	\$ 1,679,883 241,032	\$2,153,602 880,000	\$3,450,299 152,675	\$ 7,283,784 1,273,707
Accounts Assessments	252,868 4,420	765	16,331	269,964
Due from other funds (Note 6) Due from component units Inventory	104,622 12	892,000	145,866 17,248	150,286 121,870 892,012
	32,331		<u> </u>	32,331
Total Assets	\$2,315,168	\$3,926,367	\$3,782,419	10,023,954
Liabilities				
Accounts payable Deferred revenue	\$ 157,569 152,997	\$ 176,264 880,000	\$ 164,199 146,086	498,032 1,179,083
Due to other funds (Note 6)	70,772	12,621	29,184	112,577
Total Liabilities	381,338	1,068,885	339,469	1,789,692
Fund Balances				1,,00,002
Reserved for debt service	_	_	210,424	210.424
Reserved for capital projects	-	475,800	210,424	210,424 475,800
Reserved for endowments Unreserved:	-	-	1,271,233	1,271,233
Designated for various projects	-	2,381,682	-	2,381,682
Undesignated	1,933,830	<u> </u>	1,961,293	3,895,123
otal Fund Balances	1,933,830	2,857,482	3,442,950	8,234,262
otal Liabilities and Fund Balances	\$ 2,315,168	\$3,926,367	\$3,782,419	
mounts reported for Governmental Activitie Capital assets used for governmental act therefore, are not reported in the Go Internal Service Funds are used by mana as insurance and equipment leasing t Internal Service Funds are included Wide Statement of Net Assets Long-term liabilities are not due and pay	vernmental Funds Bagement to charge the individual funds. The governmental and the government per governm	t financial resourd lance Sheet. costs of certain a The assets and lia activities in the G	ifferent because: ces and, activities, such bilities of the overnment-	19,102,373 3,398,348
reported in the Governmental Funds Balance Sheet				(3,625,388)
et Assets of Governmental Activities				

### Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

June 30, 2004	General Fund	Public Improvement Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes Special assessments levied	\$ 6,119,292	\$ -	\$ -	\$ 6,119,292
Licenses and permits	505,285	-	43,800	43,800
State sources	1,113,365	81,565	0.45.700	505,285
Charges for services	841,080	61,303	845,703	2,040,633
Fines and forfeitures	30,994	_	27,004	868,084
Interest, penalties and rent	99,762	12,929	27,876	30,994
Miscellaneous revenue	113,323	12,307	101,472	140,567 227,102
Total Revenues	8,823,101	106,801	1,045,855	9,975,757
E			1,012,033	9,913,131
Expenditures				
General government Public safety	2,621,712	59,077	-	2,680,789
Public works	3,347,572	-	-	3,347,572
Culture and recreation	799,806	-	984,045	1,783,851
Interest	646,707	-	-	646,707
Capital outlay	-	2 222 515	29,453	29,453
Debt service	-	2,222,517	170,344	2,392,861
Total Expenditures	7,415,797	2 291 504	142,628	142,628
	7,413,797	2,281,594	1,326,470	11,023,861
Revenues Over (Under) Expenditures	1,407,304	(2,174,793)	(280,615)	(1,048,104)
Other Financing Sources (Uses)				
Proceeds from issuance of long-term debt		1 (() 777		
Transfers in	16,376	1,662,777 1,030,726	560.745	1,662,777
Transfers to component units	(26,600)	1,030,720	569,745	1,616,847
Transfers out	(1,292,726)	(174,085)	(150,036)	(26,600) (1,616,847)
Total Other Financing Sources (Uses)	(1,302,950)	2,519,418	419,709	1,636,177
Payanyas and att			,,,,,,	1,030,177
Revenues and other sources over				
expenditures and other uses	104,354	344,625	139,094	588,073
Fund Balance, beginning of year	1,829,476	2,512,857	3,303,856	7,646,189
fund Balance, end of year	<b>.</b>			7,010,107
and Samuet, end of year	\$ 1,933,830	\$ 2,857,482	\$3,442,950	\$ 8,234,262

The accompanying notes are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

et Change in Fund Balances – Total Governmental Funds	\$	588,07
mounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay Depreciation expense	_	2,392,861 (150,988 2,241,873
The repayment of long-term debt consumes current financial resources but does not affect net assets.		142,628
The issuance of long-term debt provides current financial resources but does not affect net assets.	(1	,662,777
The accrual of compensated absences does not consume current financial resources but does reduce net assets; therefore, they are not reported in governmental funds.		6,417
The net revenue of certain activities of internal service funds is reported with governmental activities.		462,628
ange in Net Assets of Governmental Activities	\$ 1.	778,842

The accompanying notes are an integral part of this statement.

### Proprietary Funds Statement of Net Assets

June 30, 2004	Board of Light and Power	Other Non-Major Proprietary Funds	Total	Governmental Activities  Internal Service Funds
Assets	-			2 41165
Cash and cash equivalents Due from other governments Receivables:	\$18,459,519 -	\$ 3,541,706 439,842	\$ 22,001,225 439,842	\$1,671,773 1,167
Accounts Assessments	2,007,799	757,791 54,792	2,765,590 54,792	116,952
Interest Prepaid items Due from other funds (Note 6)	18,935 62,202	- - 0.022	18,935 62,202	87,416
Inventory Restricted assets	3,867,543 9,541,879	9,022 53,134 -	9,022 3,920,677 9,541,879	236,303 10,167
Capital assets, net of accumulated depreciation (Note 4) Deferred charges	44,513,845 523,448	15,695,382	60,209,227 523,448	1,579,210
Total Assets	78,995,170	20,551,669	99,546,839	3,702,988

The accompanying notes are an integral part of this statement.

This Statement Covers More Than One Page.

## Proprietary Funds Statement of Net Assets

		Other	-	Governmental Activities
June 30, 2004	Board of Light and Power	f Non-Major Proprietary	•	Internal Service
	rowei	Funds	Total	Funds
Liabilities Current liabilities:				
Current portion of long-term debt Accounts payable Accrued liabilities Due to other governments Deferred revenues	\$ - 1,750,624 737,799 - 158,000	,	2,157,959 899,001 24,146	\$ - 204,129 100,139
Due to other funds (Note 6)	130,000	113,905	984,349 113,905	372
Total Current Liabilities	2,646,423	1,598,540	4,244,963	304,640
Current Liabilities Payable from Restricted Assets	5,770,405	-	5,770,405	-
Deferred Revenues	751,530	_	751,530	_
Long-Term Debt, less current maturities (Note 5)	61,125,159	411,959	61,537,118	
Total Liabilities	70,293,517	2,010,499	72,304,016	304,640
Net Assets Invested in capital assets				
net of related debt Restricted Unrestricted	3,771,474 4,930,179	14,973,465 - 3,567,705	14,973,465 3,771,474 8,497,884	1,579,210
Total Net Assets			\$27,242,823	1,819,138 \$3,398,348

The accompanying notes are an integral part of this statement.

# Proprietary Funds Statement of Revenue, Expenses and Changes in Fund Net Assets

Year Ended June 30, 2004	Board of Light and Power	Other Non-Major Proprietary Funds	Total	Governmental Activities  Internal Service Funds
Operating Revenue Charges for services Miscellaneous operating revenues	\$23,503,168	\$ 3,175,033 29,406	\$26,678,201 29,406	\$ 3,392,463
Total operating revenue	23,503,168	3,204,439	26,707,607	3,392,463
Operating Expenses Operations and maintenance Distribution Customer accounts Administrative and general Depreciation Statutory charge	12,406,167 1,449,179 438,979 1,321,398 3,382,223 1,015,700	3,512,220 168,696 - 975,827 494,729	15,918,387 1,617,875 438,979 2,297,225 3,876,952 1,015,700	2,667,013 - - - - 232,891
Total operating expenses	20,013,646	5,151,472	25,165,118	2,899,904
Operating Income (Loss)	3,489,522	(1,947,033)	1,542,489	492,559

The accompanying notes are an integral part of this statement.

This Statement Covers More Than One Page.

# Proprietary Funds Statement of Revenue, Expenses and Changes in Fund Net Assets

							Go	overnmental Activities
Year Ended June 30, 2004		Board of Light and Power		Other Non-Major Proprietary Funds		Total		Internal Service Funds
Non-Operating Income (Expense) - Net Interest earned on investments:								
Operating fund Debt service reserve Operating grants	\$	292,265 33,091	\$	· -	\$	33,091	\$	6,892
Amortization of debt discounts and		-		1,205,159		1,205,159		-
issue costs Interest expense:		249,461		-		249,461		-
Bond Deposits	(	4,734,550) (3,836)		(25,940)		(4,760,490) (3,836)		-
Gain on sale of assets SO <sub>2</sub> allowances		158,351 646,000		-		158,351 646,000		-
Miscellaneous		217,494		166,855		384,349		(36,823)
Total Non-Operating Expenses - Net	(.	3,141,724)		1,373,534	(	(1,768,190)		(29,931)
Change in Net Assets		347,798		(573,499)		(225,701)		462,628
Net Assets, beginning of year, as restated (Note 16)	8	3,353,855		19,114,669	2	7,468,524		2,935,720
Net Assets, end of year	\$ 8	3,701,653	\$ :	18,541,170	\$2	7,242,823	\$	3,398,348

The accompanying notes are an integral part of this statement.

### Proprietary Funds Statement of Cash Flows

				Governmenta Activities
	Board of	Other	-	
	Light and	Non-Major		Interna
Year Ended June 30, 2004	Power	Proprietary Funds	T-4-1	Service
	Tower	Fullus	Total	Funds
Cash Flows from Operating Activities				
Operating income	\$ 3,489,522	\$ (1,947,033) \$	1,542,489	\$ 492,559
Adjustments to reconcile operating			, –,	· .>2,559
income to net cash provided by				
(used for) operating activities:				
Depreciation	3,382,223	494,729	3,876,952	232,891
Loss on sale of assets	-	´ <b>-</b>	- , - , - , - , -	50,547
Bad debt expense	7,405	_	7,405	20,217
Miscellaneous income	-	166,855	166,855	(36,823
Changes in assets and liabilities:		,		(50,025)
Accounts receivable	182,073	67,025	249,098	(57,858)
Due from other funds	· -	45,690	45,690	61,778
Due from other governments	-	86,264	86,264	211
Inventories	(392,262)	964	(391,298)	882
Prepaid expenses and other			(3) 1,200)	002
current assets	(5,130)	_	(5,130)	(87,416)
Accounts payable	157,911	(146,643)	11,268	162,987
Accrued compensation	6,397	(= 11,01,0)	6,397	102,967
Other accrued liabilities	126,545	(23,831)	102,714	14,630
Due to other funds		(45,784)	(45,784)	(169,094)
Due to other governments	-	16,847	16,847	(102,024)
Deferred revenue	909,530	54,763	964,293	_
Net cash provided by (used for)				
operating activities	7.964.214	(1.000.154)		
operating activities	7,864,214	(1,230,154)	6,634,060	665,294
Cash Flows from Non-Capital Financing				
Activities				
Proceeds from operating grants				
and other	_	1,205,159	1,205,159	

The accompanying notes are an integral part of this statement.

This Statement Covers More Than One Page

# Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2004	Board of Light and Power	Other Non-Major Proprietary Funds	_ Total	Governmental Activities  Internal Service Funds
Cash Flows from Capital and Related Financing Activities Principal and interest paid on long-term debt	\$ (6,862,803)\$	(88,650)	\$ (6,951,453)	¢
Purchase of capital assets Other income Proceeds from sale of assets	(4,347,599) 861,892 182,053	(511,191)		(202,033)
Net cash used for capital and related financing activities	(10,166,457)	(596,804)	(10,763,261)	(188,083)
Cash Flows from Investing Activities Interest received on investments Purchase of investment securities Proceeds from sale and maturities	349,215 (15,066,699)	27,460	376,675 (15,066,699)	6,892
of investment securities	14,965,000	-	14,965,000	-
Net cash provided by investment activities	247,516	27,460	274,976	6,892
Net Increase (Decrease) in Cash and Cash Equivalents	(2,054,727)	(594,339)	(2,649,066)	484,103
Cash and Cash Equivalents - Beginning of Year	26,152,582	4,136,045	30,288,627	1,187,670
Cash and Cash Equivalents - End of Year	\$ 24,097,855 \$	3,541,706	\$ 27,639,561	\$ 1,671,773
Balance Sheet Classification of Cash and Cash Equivalents Cash and cash equivalents Restricted assets (Note 1)	\$ 18,459,519 \$ 5,638,336	3,541,706	\$ 22,001,225 5,63 <b>8</b> ,336	S 1,671,773
Total	\$ 24,097,855 \$	3,541,706	\$ 27,639,561 \$	1,671,773

The accompanying notes are an integral part of this statement.

### Fiduciary Funds Statement of Fiduciary Net Assets

	•	
June 30, 2004	Retiree Health Care	Agenc Fund
Assets	· · · · · · · · · · · · · · · · · · ·	
Cash and cash equivalents Accounts receivable Due from other governments Due from other funds	\$507,609 5,416 -	\$ 399,152 17,310 9,883 1,770
	513,025	\$ 428,119
Liabilities		
Accounts payable Trust deposits Due to other funds Due to other governments	22,263	\$ 81,915 96,370 119,850 129,984
	22,263	\$ 428,119
Net Assets Held in trust for Retiree Health	\$490,762	

The accompanying notes are an integral part of this statement.

# Fiduciary Funds Statement of Changes in Fiduciary Net Assets

Year Ended June 30, 2004	Retiree Health Care
Additions	
Health insurance fees	\$ 188,713
Interest income	5,160
Total Additions	193,873
Deductions	
Insurance payments	168,708
Change in Net Assets	25,165
Net Assets, beginning of year	465,597
Net Assets, end of year	\$ 490,762

### **Notes to Basic Financial Statements**

1. Summary of Significant Accounting Policies

The financial statements of the City of Grand Haven have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

#### Financial Reporting Entity

The City of Grand Haven, established in 1854, was incorporated in 1867 under the provisions of the Home Rule Act of the State of Michigan. The City operates under a Council-Manager form of government. The City of Grand Haven provides the following services as authorized by its charter or state law: Administrative Services, Public Safety, Highway and Street Maintenance, Culture, Recreation and Other Governmental Functions. The accounting policies of the City of Grand Haven conform to generally accepted accounting principles as applicable to cities. As required by generally accepted accounting principles, Governmental Accounting Standards Board (GASB) 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

<u>Component Units</u> — In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units. Discretely presented component units have a June 30 year end.

Discretely presented component units – The Component Units column in the combined financial statements includes the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

### **Notes to Basic Financial Statements**

The Central Business District Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 10 individuals, is selected by the City Council.

The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of 10 individuals, is selected by the City Council.

The Brownfield Redevelopment Authority was created to account for the redevelopment of environmentally contaminated and other underutilized sites within the City. The Authority's governing body, which consists of 10 individuals, is selected by the City Council.

#### Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

### **Notes to Basic Financial Statements**

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

# Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Notes to Basic Financial Statements**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund-based statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

### **Notes to Basic Financial Statements**

Public Improvement Fund – This Fund accounts for the construction of capital facilities to be used in governmental fund type operations. Financing is provided by contributions from the General Fund and grants from public and private sources.

The City reports the following major proprietary fund:

Board of Light and Power – This Fund accounts for the operation, maintenance, capital additions and retirement of revenue bonds of the electric supply system. Financing is provided by user charges from the sale of electricity.

#### Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for funds. All annual appropriations lapse at fiscal year end.

At June 30, 2004, the City's Brownfield Redevelopment Authority Fund in the component units had a fund deficit of \$1,285,594. The City plans to eliminate the deficit through a tax increment financing district in the project area in future years.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchases of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

#### Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments.

Cash equivalents are short-term, highly liquid investments that have the following characteristics:

### **Notes to Basic Financial Statements**

- Investments that are readily convertible to known amounts of cash
- Investments that mature in such a short period of time that their values are effectively immune from changes in interest rates
- Original maturity of three months or less

Investments are stated at fair value. The City maintains a pooled investment fund to account for all investments of the various City funds. Investments within this pooled investment fund are shown on the balance sheets of each individual fund as cash and cash equivalents.

### Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

#### **Property Taxes**

Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 31 without penalty and until March 1 of the following year with penalty. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date (July 1).

The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in a tax collection Agency Fund. The City is permitted by charter or state law without voter approval to levy taxes up to \$15.00 per \$1,000 of state equalized valuation for general governmental purposes and the amount required to service the General Obligation Debt. The tax rate to finance City services including transportation for the year ended June 30, 2004 was \$11.11 per \$1,000 of taxable valuation.

### **Notes to Basic Financial Statements**

#### **Inventories**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the governmental funds consist of expendable supplies which are recorded as an expenditure at the time individual inventory items are purchased.

#### Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items. These prepaid items are primarily insurance premiums and fiscal year 2005 memberships invoiced prior to July 1, 2004. The City follows the consumption method of accounting in reporting these items and, therefore, no offset by a fund balance reserve is required.

#### Restricted Assets

Restricted assets consist of the following:

June 30,	2004	2003
Bond and interest redemption account: Cash and cash equivalents U.S. Treasury bills and notes Debt service reserve account:	\$1,870,012 3,903,543	\$ 5,026,284
Cash and cash equivalents U.S. Treasury bills and notes Interest receivable	3,768,324	3,822,013 811
Total revenue bond restricted assets	9,541,879	8,849,108
Less current liabilities payable from restricted assets:  Debt principal payable  Accrued interest payable	3,935,000 1,835,405	3,745,000 1,278,561
Total current liabilities payable from restricted assets	5,770,405	5,023,561
Total Net Restricted Assets	\$3,771,474	\$ 3,825,547

### **Notes to Basic Financial Statements**

These assets are restricted pursuant to the Revenue Resolution for revenue bond debt service and for surplus fund transfers to meet the required debt service coverage ratio. Net assets are reserved for the purpose noted above.

#### Capital Assets

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

For the year ended June 30, 2004, the City has elected to utilize the transition reporting options for infrastructure assets. As such, retroactive capitalization of infrastructure assets in existence prior to July 1, 2003 are not included in these financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

20-100 4-8 10-30

### **Notes to Basic Financial Statements**

#### Compensated Absences

The liability for compensated absences reported in the statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

### Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

#### **Equity and Other Credits**

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. Portions of equity are segregated for future uses, and are, therefore, not considered available for future appropriation or expenditure. Amounts reserved represent portions of fund balance/retained earnings either not appropriable for expenditure or which are legally segregated for a specific future use. Designations of unreserved fund equity in governmental funds indicate City management's tentative plans for use of financial resources in a future period.

### **Notes to Basic Financial Statements**

#### **Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

#### Comparative Data

Comparative total data for the prior year has not been presented in the accompanying financial statements.

#### Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. Legal Compliance – Budgets The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

### **Notes to Basic Financial Statements**

The budget has been prepared in accordance with generally accepted accounting principles, except that transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

The budget statement (combined statement of revenue, expenditures, and changes in fund balances – budget and actual – General, Special Revenue, and Debt Service Fund types) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a fund total basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The budget statement presented for the General Fund in the financial statements is more detailed than the budget as adopted by the City Council. A comparison of the budget for each individual Special Revenue Fund and Debt Service is available at City Hall.

# 3. Deposits and Investments

The City's deposits and investments at June 30, 2004 are included on the balance sheet under the following classifications:

Cash and cash equivalents Restricted cash and investments	\$31,863,543 9,541,879
Total	\$41,405,422

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, savings accounts and certificates of deposit) Investments in securities, mutual funds and	\$32,642,670
similar vehicles	8,762,752
Total	\$41,405,422

### **Notes to Basic Financial Statements**

#### **Deposits**

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$32,936,579. Of that amount, \$300,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution it deposits City funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Investments

The City of Grand Haven is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies, other than the Cemetery Perpetual Care Fund, in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. In addition, the Revenue Bond Resolution provides for additional restrictions for the investments of the Board of Light and Power. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that in certain Agency Funds, investment earnings are allocated to the General Fund. All assets are registered in the name of the City and held by the City's agent. As such, in accordance with GASB 40, the custodial risk of these investments need not be disclosed.

#### Component Units

The cash and investments of the City's component units consist of \$166,561 and investments of \$14,209. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$166,561, of which \$100,000 was covered by federal depository insurance. The investments of \$14,209 are held in a bank investment pool.

### **Notes to Basic Financial Statements**

4.	Capital Assets	Capital asset activity of the City's governmental activities was follows:	as
----	----------------	---	----

Primary Government				
	Balance			Balance
	July 1, 2003	Increases	Decreases	June 30, 2004
Governmental Activities				-
Capital assets, not depreciable:				
Land and land improvements	\$ 8,478,614	\$1,805,212	\$ -	\$ 10,283,826
		, , , , , , , , , , , , , , , , , , , ,		Ψ 10,203,020
Capital assets being depreciated:				
Structures and improvements	5,496,928	289,702	_	5,786,630
Machinery, equipment, vehicles and fixtures	7,805,971	326,760	125,808	8,006,923
Waterfront development	891,765	, <u>-</u>	-	891,765
Parking facilities	340,823	_	_	340,823
Recreation development	1,514,200	2,876	-	1,517,076
Infrastructure	124,902	170,344	_	295,246
Total Access Boing Demonstra			· · · · · · · · · · · · · · · · · · ·	
Total Assets Being Depreciated	16,174,589	789,682	125,808	16,838,463
Less accumulated depreciation for:				
	(0.056.060)	<b></b>		
Structures and improvements	(2,276,869)	` ' /	-	(2,303,592)
Machinery, equipment, vehicles and fixtures	(2,818,283)	(281,899)	61,311	(3,038,871)
Waterfront development	(370,236)	-	-	(370,236)
Parking facilities	(245,502)	` ' '	-	(269,128)
Recreation development	(407,248)	(51,631)	-	(458,879)
Infrastructure				
Total Accumulated Depreciation	(6.110.100)	(202.000)		
Total Accumulated Depreciation	(6,118,138)	(383,879)	61,311	(6,440,706)
Total Capital Assets Being Depreciated, net	10,056,451	405,803	64,497	10,397,757
Governmental Activities - Capital Assets, net	\$ 18,535,065	\$2,211,015	\$ 64,497	\$ 20,681,583

# **Notes to Basic Financial Statements**

		Balance				Balance
	Jul	y 1, 2003	Increases	Decreases	Jun	e 30, 2004
Business-Type						
Capital assets, not depreciable:						
Land and land improvements	\$	731,921	\$ 95,317	<b>C</b>	\$	027 220
Construction in progress		897,064	4,347,599	•	Ф	827,238 3,314,653
Total capital assets not being depreciated	1	,628,985	4,442,916	1,930,010		4 141 901
		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	1,112,510	1,730,010		4,141,891
Capital assets being depreciated:						
Structures and improvements	6	,316,328	41,810	30,000		6,328,138
Machinery, equipment, vehicles and fixtures		,354,197	-1,010	193,665		2,160,532
Production and treatment systems		,690,928	296,204	834,158	5	2,100,532 37,152,974
Transmission and distribution systems		,351,813	1,958,106	11,625		88,298,294
General plant	1	,226,326	51,142		_	1,277,468
Total assets being depreciated	133	,939,592	2,347,262	1,069,448	1.2	· · · · · · · · · · · · · · · · · · ·
	133	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	2,347,202	1,009,448	13	5,217,406
Less accumulated depreciation for:						
Structures and improvements	(2.	341,618)	(186,317)	30,000	(	2,497,935)
Machinery, equipment, vehicles and fixtures		023,285)	(189,488)	,		2,497,933) 1,023,523)
Production and treatment systems		622,264)	(2,524,225)	,	-	9,334,431)
Transmission and distribution systems		518,029)	(840,201)	,		5,346,605)
General plant		310,855)	(136,721)	, .	(1	(947,576)
						(> 17,510)
Total Accumulated Depreciation	(76,	316,051)	(3,876,952)	1,042,933	(7	9 <u>,</u> 150 <u>,</u> 070)
Total Capital Assets Being Depreciated, net	57,	623,541	(1,529,690)	26,515	50	6,067,336
Business-Type Activities - Capital Assets, net	\$ 59,2	252,526	\$ 2,913,226	\$1,956,525	\$ 60	0,209,227

# **Notes to Basic Financial Statements**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	\$	98,647
Public safety		141,844
Public works		73,952
Culture and recreation		69,436
Total Depreciation Expense - Governmental Activities	\$	383,879
Business type activities:		
Board of Light and Power	en o	202022
Other proprietary funds	<b></b>	3,382,223 494,729
Total Depreciation Expense -		
Business-Type Activities	\$ 3	3,876,952

### **Notes to Basic Financial Statements**

5. Long-Term Debt The following is a summary of the long-term debt outstanding of the City as of June 30, 2004:

Governmental Activities	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	2000
Bonds Payable					
1993 Building Authority Parking Facility Bonds maturing through 2005, interest ranging from 4.9% - 7.2%.	\$ 90,000	\$ -	\$ (30,000)	\$ 60,000	\$ 30,000
Special Assessment Bond Fund – 1996 Municipal Purchase Agreement, Series A with a maturity date of May 1, 2004, interest ranging from 4.4% - 4.89%	30,000	_	(15,000)	,	15,000
Special Assessment Bond Fund – 1996 Municipal Purchase Agreement, Series B with a maturity date of September 1, 2015, interest ranging from 5.1% - 7.0%.	90,000			,	·
			(5,000)	85,000	5,000
Total Bonds Payable	210,000	-	(50,000)	160,000	50,000
Land contract payable in annual installments of \$34,000. Final payment due June 30, 2008.	136,000	-	-	136,000	34,000
Economic development note payable in annual installments of \$26,896 beginning in 2004 including interest at 6.0%. Final payment due April 2017.	250,000	-	_	250,000	12,610
Property loans payable in installments of \$72,452 commencing in October 2004 including interest at 2.64%. Final payment due May 2009.	394,769	1,662,777			ŕ
Equipment loan payable in annual installments of \$111,778 including interest at 3.83%. Final payment	394,709	1,002,777	-	2,057,546	316,057
due July 2007.	500,000	_	(92,628)	407,372	96,175
Accumulated compensated absences	620,887	-	(6,417)	614,470	241,081
Total Governmental Activities Long-Term Debt	\$2,111,656	\$ 1,662,777	\$(149,045)		\$749,923

### **Notes to Basic Financial Statements**

Business-Type Activities	Balance July 1, 2003		Reductions	Balance June 30, 2004	Due within one year
Bonds Payable					
1993 Electric Revenue Refunding Bonds, maturing through 2008, with interest ranging from 4.90% to 5.25% (net of discount, loss on refunding and portion payable from restricted assets).	\$ 21,053,903	\$ -	\$(3,656,749)	\$ 17,397,154	\$ -
2003 Electric Revenue Refunding Bonds, maturing through 2016, with interest ranging from 5.00% to 5.50% (net of premium and loss on refunding).	43,262,990	465,015	_	43,728,005	_
1990 General Obligations Limited Tax Bonds maturing through October 2004, with interest at 7.0%.	40,000	_	(20,000)	20,000	20,000
1990 Special Assessment Limited Tax Bonds maturing through October 2009, with interest at 7.0%.	70,000	-	(10,000)	60,000	10,000
1990 N.O.W.S.G.O. Contract, to support bonds that were refinanced in 1998, maturing through 2010 with interest ranging from 4.25% to 4.70%.	81,172	_	(7,110)	74,062	7,703
1996 Municipal Purchase Agreement, refinanced in 2002, maturing in 2010 with an interest rate of 4.29%.	146,000		(14,000)	132,000	15,000
1990 Municipal Purchase Agreement, refinanced in 2002, maturing in 2010 with an interest rate of 4.29%.	203,100	_	(11,600)	191,500	12,900
Total Business-Type Activities Long-Term Debt	\$ 64,857,165	\$ 465,015	\$(3,719,459)		\$ 65,603
Total All Long-Term Liabilities	\$ 66,968,821	\$2,127,792	\$(3,868,504)	\$ 65,228,109	\$815,526

### **Notes to Basic Financial Statements**

The total requirement for payment of principal and interest amount to \$73,251,986 and \$26,542,047, respectively, at June 30, 2004 as follows:

	Go	Governmental Activities		Busi	ness-Ty	pe A	Activities	
		Principal	· · · · · ·	Interest	Pr	incipal		Interest
2005	\$	508,842	\$	96,656	\$ 4.0	00,603	\$	3,694,004
2006		528,747		86,409		94,882	4	3,494,136
2007		495,179		61,960		26,437		3,280,052
2008		508,933		47,945	-	59,231		3,049,915
2009		377,347		30,485		38,765		2,804,840
2010-2014		514,977		60,150		66,150		8,658,725
2015-2018		76,893		9,395	,	15,000		1,167,375
	\$3	,010,918	\$3	93,000	\$ 70,24	1,068	\$2	26,149,047

### **Notes to Basic Financial Statements**

# **6. Interfund Balances** The following are the interfund receivables at June 30, 2004: and Transfers

Fund	Interfund Receivable	Fund	Interfund Payable
General Fund	\$104,622	Major Street and Trunkline Local Street Public Improvement Harbor Transit Municipal Sewage Treatment Municipal Water Marina Airport Cemetery Care	\$ 91 91 314 7,780 53,584 34,129 4,905 160 3,568
Major Street	1,000	General Fund	1,000
Local Street	1,000	General Fund	1,000
Building Authority	12,307	Public Improvement	12,307
Cemetery Care	2,941	General Fund	2,941
Municipal Sewage Treatment	1,741	General Fund Motor Pool Harbor Transit Marina Airport	1,272 170 91 186 22

### **Notes to Basic Financial Statements**

Fund	Interfund Receivable	Fund	Interfund Payable
Municipal Water	\$ 6,925	General Fund Motor Pool Municipal Sewage Treatment Harbor Transit Marina Airport Payroll	\$ 4,288 202 32 57 536 46 1,764
Harbor Transit	104	General Fund	104
Memorial Airport	252	General Fund	252
Motor Pool	95,915	General Fund Major Street and Trunkline Local Street Municipal Sewage Treatment Municipal Water Marina Airport	58,106 12,717 12,717 4,667 5,917 583 1,208
Insurance	119,577	General Fund Retiree Health Care Payroll	39 1,452 118,086
Payroll	1,770	General Fund	1,770
Health Benefits	20,811	Retiree Health Care	20,811
	\$368,965		\$368,965

#### **Notes to Basic Financial Statements**

Transfers during the fiscal year were as follows:

Fund	Transfer in	Transfer out
General Fund	\$ 16,376	\$1,292,726
Public Improvement	1,030,726	174,085
Major Street and Trunkline	131,000	100,000
Local Street	231,000	· -
Building Authority Bonds	33,660	_
Non-Voted General Debt	111,778	-
Fire Truck	50,000	_
Building Authority	12,307	33,660
Cemetery Care	· -	16,376
Harbor Transit	3,526	
Airport		3,526
	\$1,620,373	\$1.420.272
	Φ1,020,3/3	\$1,620,373

#### 7. Risk Management

The City purchases insurance and participates in public entity risk pools for the various risks associated with City operations. Significant risk management activities of the City are accounted for and disclosed below as required by GASB 10.

The City is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains its liability insurance coverage as a member of the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing liability and property coverage to its participating members. The City pays an annual premium to MMLPP for liability insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrences based coverage by internally insuring certain risks and reinsuring risks through commercial companies. A \$1,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

#### **Notes to Basic Financial Statements**

The City manages its workers' compensation risk by participating in the Michigan Municipal League Workers' Compensation Fund (MMLWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMLWCF for its workers compensation coverage. The MMLWCF is self-sustaining through member premiums and provides statutory workers compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

# 8. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

# 9. Postemployment Benefits

The City provides health care benefits to retirees in accordance with the pension ordinance. Currently, 67 retirees are eligible. The City pays 75% to 80% of the annual premium (depending on the bargaining unit) and the retiree pays the balance. Retirees are required to purchase and pay for Medicare supplemental insurance when they become eligible. Expenditures for postemployment health care benefits are recognized annually as the insurance premiums become due. These benefits were paid from the Retiree Health Care Fund (which is funded by all operating funds) and approximated \$168,700 during the year ended June 30, 2004.

#### **Notes to Basic Financial Statements**

#### 10. Pension Plan

#### Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

#### **Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units. For the year ended June 30, 2004, the City suspended all required employee and employer contributions due to the significantly overfunded status of its actuarial accrued liability.

#### **Annual Pension Cost**

For the year ended June 30, 2004, the City's annual pension cost of \$0 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of any given year's variation from an 8 percent return over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

### **Notes to Basic Financial Statements**

#### Three-Year Trend Information

	Fiscal Year Ended June 30,					
		2002		2003		2004
Annual pension cost (APC) Percentage of APC	\$	-	\$	-	\$	-
contributed		100%		100%		100%
Net pension obligation		None		None		None
-	A	ctuarial Va	lua	tion as of De	ecei	mber 31,
		2001		2002		2003
Actuarial value of assets Actuarial accrued liability	\$	53,803,031	\$	53,667,967	\$5	55,800,362
(AAL)		38,263,840		41,912,591	4	16,177,189
Overfunded AAL		15,539,191		11,755,376		9,623,173
Funded ratio		141%		128%		121%
Covered payroll	\$	7,978,231	\$	7,973,516	\$	8,571,548
Overfunded AAL as a						
percentage of covered						
payroll		195%		147%		112%

# 11. Component Unit Financial Information

Condensed financial statements for each of the discretely presented component units are included in the government-wide financial statements. Complete financial statements of the individual component units can be obtained from their respective administrative offices.

### Administrative Offices

Central Business District
Development Authority
228 Washington
Grand Haven,
Michigan 49417

Economic Development Corporation
and Brownfield Redevelopment
Authority
519 Washington
Grand Haven, Michigan 49417

#### **Notes to Basic Financial Statements**

#### 12. Joint Ventures

The City is a member of the Grand Haven - Spring Lake Sewer Authority (the "Authority"). The City can appoint two members to the joint venture's governing board, which then approves the annual budget. In the current year, the City paid \$798,277 to the Authority for sewage treatment. The purpose of the Grand Haven-Spring Lake Sewer Authority is to acquire, own, improve, enlarge, extend, and operate a sewage disposal system. The Authority is governed by a Board of Trustees containing seven members. The participating communities (Cities of Grand Haven and Ferrysburg, Townships of Spring Lake and Grand Haven, Village of Spring Lake, and County of Ottawa) pay a set rate to the Authority to process waste. This rate includes amounts to finance the Authority's debt. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements can be obtained at Grand Haven City Hall.

The City is also a member of the Northwest Ottawa Water Treatment Plant. The City appoints one member to the joint venture's governing board, which then approves the annual budget. In the current year, the City paid \$682,981 to the plant to purchase water. The purpose of the Northwest Ottawa Water Treatment Plant is to acquire, construct, finance, operate, and maintain a water production facility. The plant is governed by an administrative committee composed of one representative from each of the participating communities (Cities of Grand Haven and Ferrysburg, Townships of Grand Haven and Spring Lake, and County of Ottawa). These participating communities pay for water at a rate that is estimated to cover operation, maintenance, replacement, and debt service. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements can be obtained at Grand Haven City Hall (519 Washington Street).

### **Notes to Basic Financial Statements**

The Board of Light and Power entered into a joint venture, the Michigan Public Power Agency (MPPA), with 13 other municipal electric systems. The MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation, and maintenance of projects to supply electric power and energy for present or future needs of its Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way. Lansing, Michigan 48917. The MPPA operates various projects. The Board participates in the power pool project. During 2004, the Board had sales of \$3,072,071 to the MPPA power pool and had purchases of \$1,082,750 from the MPPA power pool. At June 30, 2004, the MPPA power pool owed the Board \$261,450.

# 13. Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or deficit generated since January 1, 2000 is as follows:

Deficit, at July 1, 2003 Current year building permit revenue		\$ (45,353) 270,155
Related expenses: Direct costs Estimated indirect costs	\$198,533 19,853	
Total construction code expenses		218,386
Cumulative Surplus, at June 30, 2004		\$ 6,416

#### **Notes to Basic Financial Statements**

#### 14. Commitments

During 2004, the Board of Light and Power entered into a coal purchase agreement to purchase 124,000 tons of coal at fixed prices prior to December 15, 2004. At June 30, 2004, approximately 31,000 tons of coal had been purchased under this agreement.

Amounts required to complete various construction projects are not material to the financial statements.

As disclosed in Note 12, the City is a member of the Grand Haven-Spring Lake Sewer Authority and the Northwest Ottawa Water Treatment Plant. The City, along with the other participating communities, has pledged their full faith and credit for repayment of the outstanding debt of these entities. For all debt, the amount the City is required to contribute to these entities for repayment of debt is not a fixed amount, but is based on the volume of sewage treated and water purchased and is included in the rate charged by these entities.

# 15. Excess of Expenditures Over Revenues in Budgetary Funds

During the year ended June 30, 2004, the City incurred expenditures in various funds which were in excess of amounts appropriated, as follows:

		Actual
	Appropriation	Expenditures
0 15 1		
General Fund		
Planning	\$ 193,930	\$ 195,893
Public safety – Support services	466,200	468,211
Community services - Musical fountain	14,700	14,781
Community services - Waterfront	237,570	261,229
Community services - Central garage	2,295	2,804
Community services - Sewer authority	8,220	12,260
Building Authority Fund	-	37
Cemetery Perpetual Care Fund	6,000	6,852

All expenditures over appropriations as identified above have been paid by excess revenues or by reduced expenditures in other activities.

### **Notes to Basic Financial Statements**

# 16. Restatement of Net Assets

During the year ended June 30, 2004, the City discovered that certain adjustments were required to be made to the beginning net assets previously reported in the financial statements relating to the total long-term debt reported for governmental activities and state grant revenue previously recorded in the Harbor Transit Fund. The result of these adjustments was to increase beginning net assets in the governmental activities by \$34,000 from \$25,296,753 to \$25,330,753 and to decrease beginning net assets in the business-type activities by \$96,768 from \$27,565,292 to \$27,468,524.

# Required Supplemental Material

	General Fund				
June 30, 2004	Original Budget	Final Budget	Actual		
Revenues					
Taxes	\$ 6,077,689	\$ 6,082,185	\$ 6,119,292		
Licenses and permits	313,700	401,250	505,285		
State sources Charges for services	1,185,300	1,117,500	1,113,365		
Fines and forfeitures	886,475	851,812	841,080		
Interest, penalties and rent	75,000 120,200	27,000 100,000	30,994		
Miscellaneous revenue	120,200	135,950	99,762 113,323		
Total Revenues	8,758,614	8,715,697	8,823,101		
Expenditures					
Current operations					
General government	2,805,295	2,823,360	2,621,712		
Public safety	3,528,474	3,566,105	3,347,572		
Public works	922,865	944,010	799,806		
Culture and recreation Capital outlay	670,190	703,990	646,707		
Total Expenditures	7,926,824	8,037,465	7,415,797		
Revenues Over Expenditures	831,790	678,232	1,407,304		
Other Financing Sources (Uses)					
Proceeds from issuance of long-term debt					
Transfers in	20,000	26,200	16,376		
Transfers to components units	(26,600)	(26,600)	(26,600)		
Transfers out	(790,726)	(1,290,725)	(1,292,726)		
Total Other Financing (Uses)	(797,326)	(1,291,125)	(1,302,950)		
Revenues and Other Sources Over (Under)					
Expenditures and Other Uses	34,464	(612,893)	104,354		
Fund Balance, beginning of year	1,829,476	1,829,476	1,829,476		
Fund Balance, end of year	\$ 1,863,940	\$ 1,216,583	1,933,830		

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Major Governmental Funds

_	Public Improvement								
	Original Budget	Final Budget	Actual						
			1101441						
5	-	\$ -	\$ -						
	880,000	4,100	81,565						
	-	-	_						
	15,000	12,200	12,929						
	12,300	12,300	12,307						
	907,300	28,600	106,801						
	-	-	59,077						
	-	-	-						
	1,666,948	2,729,200	2,222,517						
	1,666,948	2,729,200	2,281,594						
	(759,648)	(2,700,600)	(2,174,793)						
	-	1,570,147	1,662,777						
	530,726	1,030,725 (892,000)	1,030,726						
	(62,300)	(174,080)	(174,085)						
	468,426	1,534,792	2,519,418						
	(291,222)	(1,165,808)	344,625						
	2,512,857	2,512,857	2,512,857						
\$	2,221,635	3 1,347,049 \$	2,857,482						

# Required Supplementary Information for Pension Plans – GASB 27

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
December 31:						
2001	\$ 53,803,031	\$ 38,263,840	\$ 15,539,191	140.61%	\$ 7,978,231	194.77%
2002	53,667,967	41,912,591	11,755,376	128.05%	7,973,516	147.43%
2003	55,800,362	46,177,189	9,623,173	120.84%	8,571,548	112.27%

	Special l		
June 30, 2004	Major Street and Trunkline	Local Street	Building Authority Bonds
Assets  Cash and cash equivalents  Due from other governments  Taxes and other receivable  Special assessments receivable  Due from other funds	\$1,042,493 117,071 569 - 1,000	\$609,948 35,604 642 52,178 1,000	\$ - - - -
Total Assets	\$1,161,133	\$699,372	\$ -
Liabilities and Fund Balances Liabilities Accounts payable Deferred revenues Due to other funds	\$ 149,990 - 12,808	\$ 14,209 52,398 12,808	\$ - -
Total Liabilities	162,798	79,415	
Fund balances Reserved for debt service Reserved for endowments Unreserved Undesignated	- - 998,335	- - 619,957	- -
Total Fund Balances	998,335	619,957	
Total Liabilities and Fund Balances	\$1,161,133	\$699,372	\$ -

# Combining Balance Sheet – Non-Major Governmental Funds

Debt Se	rvice	Capit	al Projects	Permanent	
Special Assessment Bonds	Non-vote Genera Deb	ıl Fire	Fire Building Truck Authority		Total All Funds
\$210,424 -	\$	- \$236,589 	\$ 94,105	\$1,256,740	\$3,450,299 152,675
93,688		- - - -	12,307	15,120 - 2,941	16,331 145,866 17,248
\$304,112	\$	\$236,589	\$106,412	\$1,274,801	\$3,782,419
\$ - 93,688	\$ - -	\$ - - -	\$ -	\$ -	\$ 164,199 146,086 29,184
93,688		_	_	3,568	339,469
210,424	-	-	-	1,271,233	210,424 1,271,233
<del></del>	_	236,589	106,412	-	1,961,293
210,424	_	236,589	106,412	1,271,233	3,442,950
\$304,112	\$ -	\$236,589	\$106,412	\$1,274,801	\$3,782,419

	Special I		
June 30, 2004	Major Street and Trunkline	Local Street	Building Authority Bonds
Revenues State grants and distributions Charges for services Special assessments Interest income Miscellaneous revenue	\$ 636,211 - 6,114 35,293	\$ 209,492 2,609 21,378 3,640 298	\$ - - -
Total Revenues	677,618	237,417	
Expenditures Public works Capital outlay Debt principal payments Interest and fiscal charges	568,626 144,781 -	408,530 25,563	30,000 3,660
Total Expenditures	713,407	434,093	33,660
Revenues Over (Under) Expenditures	(35,789)	(196,676)	(33,660)
Other Financing Sources (Uses) Transfers in Transfers out	131,000 (100,000)	231,000	33,660
Total Other Financing Sources (Uses)	31,000	231,000	33,660
Revenues and Other Sources Over (Under) Expenditures and Other Uses Fund Balance, beginning of year	(4,789) 1,003,124	34,324 585,633	-
Fund Balance, end of year	\$ 998,335		\$ -

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds

Debt Se	ervice	Capital	Projects	Permanent	
Special Assessment Bonds	Non-voted General Debt	Fire			Total All Funds
\$ - 22,422 7,644	\$ - - -	\$ - - 462	\$ - - 527	\$ - 24,395 - 9,489	\$ 845,703 27,004 43,800 27,876
30,066	_	462	527	65,881 99,765	1,045,855
20,000 6,643	92,628 19,150	- - -	37 - - -	6,852 - -	984,045 170,344 142,628 29,453
26,643	111,778	-	37	6,852	1,326,470
3,423	(111,778)	462	490	92,913	(280,615)
· -	111,778	50,000	12,307 (33,660)	- (16,376)	569,745 (150,036)
	111,778	50,000	(21,353)	(16,376)	419,709
3,423 207,001	-	50,462 186,127	(20,863) 127,275	76,537 1,194,696	139,094 3,303,856
\$210,424	\$ -	\$ 236,589	\$106,412	\$1,271,233	\$3,442,950

	Major St	Major Street and Trunkline			
Year ended June 30, 2004	Budget	Actual	Variance		
Revenues State grants and distributions Charges for services Special assessments	\$ 845,500	\$ 636,211 -	\$(209,289) -		
Interest income Miscellaneous revenue	6,000 34,000	6,114 35,293	114 1,293		
Total Revenues	885,500	677,618	(207,882)		
Expenditures Public works Capital outlay Debt principal payments Interest and fiscal charges	654,670 572,130	568,626 144,781 -	86,044 427,349 -		
Total Expenditures	1,226,800	713,407	513,393		
Revenues Over (Under) Expenditures	(341,300)	(35,789)	305,511		
Other Financing Sources (Uses) Transfers in Transfers out	130,000 (100,000)	131,000 (100,000)	1,000		
Total Other Financing Sources (Uses)	30,000	31,000	1,000		
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(311,300)	(4,789)	306,511		
Fund Balance, beginning of year	1,003,124	1,003,124			
Fund Balance, end of year	\$ 691,824 \$	998,335	\$ 306,511		

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non-Major Governmental Funds

	Local Street							
	Budget	Actual	Variance					
•	\$ 211,000 4,000 13,000 5,000 1,000	\$ 209,492 2,609 21,378 3,640 298	\$ (1,508) (1,391) 8,378 (1,360) (702)					
_	234,000	237,417	3,417					
	446,885 222,130 -	408,530 25,563	38,355 196,567 - -					
_	669,015	434,093	234,922					
_	(435,015)	(196,676)	238,339					
	230,000	231,000	1,000					
	230,000	231,000	1,000					
	(205,015) 585,633	34,324 585,633	239,339					
	\$ 380,618	\$ 619,957	\$239,339					

	Building Authority Bonds					
Year ended June 30, 2004	Budget		Variance			
Revenues						
State grants and distributions	\$ -	\$ -	\$ -			
Charges for services	•	<u> </u>	Ψ -			
Special assessments	_	-	_			
Interest income	-	_	_			
Miscellaneous revenue	<b>_</b>	-	_			
Total Revenues	-	_	_			
Expenditures						
Public works						
Capital outlay	-	-	-			
Debt principal payments	20.000	-	-			
Interest and fiscal charges	30,000		-			
micrest and fiscal charges	4,060	3,660	400			
Total Expenditures	34,060	33,660	400			
Revenues Over (Under) Expenditures	(34,060)	(33,660)	400			
Other Financing Sources (Uses) Transfers in Transfers out	34,060	33,660	(400)			
Total Other Financing Sources (Uses)	34,060	33,660	(400)			
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-			
Fund Balance, beginning of year	<u> </u>	<u>-</u>				
Fund Balance, end of year	\$ -	\$ -	\$ -			

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non-Major Governmental Funds

Special	Assessment	Bonds	Non-Voted General Debt			
Budget	Actual	Variance	Budget	Actual	Variance	
\$ -	\$ -	\$ -\$	-	\$ -	\$ -	
24,215 2,000	22,422 7,644	(1,793) 5,644	- - -	- - -	- - -	
26,215	30,066	3,851	-			
-	-	- -	-	-	-	
20,000 6,645	20,000 6,643	2	96,175 15,605	92,628 19,150	3,547 (3,545)	
26,645	26,643	2	111,780	111,778	2	
(430)	3,423	3,853	(111,780)	(111,778)	2	
<u>-</u>	-	<u>-</u>	111,780	111,778	(2)	
	-		111,780	111,778	(2)	
(430) 207,001	3,423 207,001	3,853	-	-	-	
	\$210,424	\$ 3,853 \$	_	<u>-</u> \$ -	\$ -	

	Fire Truck					
Year ended June 30, 2004	Budget	Actual	Variance			
Revenues		-				
State grants and distributions	\$ -	\$ -	\$ -			
	-	-	-			
Interest income	1 000	-	_			
Miscellaneous revenue	1,000	462	(538)			
Total Revenues	1,000	462	(538)			
Expenditures			(000)			
Public works						
Capital outlay	-	-	-			
Debt principal payments	-	<u>-</u>	_			
Interest and fiscal charges	-	<del>-</del>	-			
Total Expenditures	-	_	_			
Revenues Over (Under) Expenditures	1,000	462	(538)			
Other Financing Sources (Uses) Transfers in Transfers out	50,000	50,000	-			
Total Other Financing Sources (Uses)	50,000	50,000	_			
Revenues and Other Sources Over (Under) Expenditures and Other Uses	51,000	50,462	(538)			
Fund Balance, beginning of year	186,127	186,127	-			
Fund Balance, end of year	grants and distributions ges for services al assessments set income ellaneous revenue  venues  1,000  ures c works al outlay principal payments set and fiscal charges  penditures  Over (Under) Expenditures  1,000  anancing Sources (Uses) fers in fers out  cer Financing Sources (Uses) and Other Sources Over (Under) ditures and Other Uses  ance, beginning of year  1,000  186,127	\$236,589	\$(538)			

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non-Major Governmental Funds

	Вι	ildir	g Author	ity		Cemetery Perpetual Care				<u> </u>	
Bud	get		Actual	Vari	ance		Budget Actual			7	<sup>7</sup> ariance
\$ -	-	\$	-	\$	-	\$	20,000	\$	24,395		4,395
	600 -		527		(73)		6,800 26,000		9,489 65,881		2,689 39,881
6	00		527		(73)		52,800		99,765		46,965
	-		37		(37)		6,000		6,852		(852)
	_		_				<u>-</u>				
			37		(37)		6,000		6,852		(852)
6	00		490	(	110)		46,800		92,913		46,113
12,3 (34,0		(	12,307 33,660)		7 400		(26,200)		(16,376)		9,824
(21,70	60)	(	21,353)		407		(26,200)		(16,376)		9,824
(21,10		,	20,863) 27,275	·	297 -	1,	20,600	1,	76,537 194,696		55,937 
\$106,11	15	\$10	06,412	\$ 2	297	\$1,	215,296	\$1,2	271,233	\$.	55,937

	Municipal		
June 30, 2004	Sewage Treatment	Municipal Water	Harbor Transit
Assets		· · · · · · · ·	Transit
Current Assets Cash and cash equivalents Accounts receivable Due from other governments Due from other funds Inventory	\$ 193,629 329,572 - 1,741	\$2,397,636 337,560 - 6,925 27,279	\$ 310,519 23,387 422,199 104 25,457
Total Current Assets	524,942	2,769,400	781,666
Special Assessments	54,792	-	_
Capital Assets, net of accumulated depreciation	3,879,832	6,048,688	1,683,421
Total Assets	4,459,566	8,818,088	2,465,087
Liabilities and Net Assets		-	
Current Liabilities Current portion of long-term debt Accounts payable Accrued liabilities Due to other governments Due to other funds Deferred revenue	30,000 95,070 15,086 - 58,283	7,703 211,387 32,076 40,046	78,146 108,779 4,818 7,929 826,349
Total Current Liabilities	198,439	291,212	1,026,021
Long-Term Debt - net of current portion	50,000	66,359	-
Total Liabilities	248,439	357,571	1,026,021
Net Assets Invested in capital assets, net of related debt Unreserved	3,799,832 411,295	5,974,626 2,485,891	1,439,066
Total Net Assets	\$4,211,127	\$8,460,517	\$1,439,066

## Non-Major Proprietary Funds Combining Statement of Net Assets

Mai	ina	Airport	Total
\$ 419,9 46,9 17,6	908	220,039 20,364 - 252 151	\$ 3,541,706 757,791 439,842 9,022 53,134
484,6	581	240,806	4,801,495
	-	-	54,792
842,0	)26	3,241,415	15,695,382
1,326,7	707	3,482,221	20,551,669
19,0 2,5 6,2	53	27,900 3,660 2,708 19,328 1,437	65,603 407,335 161,202 24,146 113,905
	-	1,437	826,349
27,8	35	55,033	1,598,540
	_	295,600	411,959
27,8	35	350,633	2,010,499
842,0 456,8		2,917,915 213,673	14,973,465 3,567,705
\$1,298,8	72 \$3	3,131,588	\$18,541,170

	Municipal		
June 30, 2004	Sewage Treatment	Municipal	Harbor
2.00	Treatment	Water	Transit
Operating Revenues			
Charges for services	\$1,379,898	\$1,149,262	\$ 284,055
Miscellaneous operating revenues	29,406		-
Total Operating Revenues	1,409,304	1,149,262	284,055
Operating Expenses			
Operations and maintenance	1,165,720	976,156	1,133,427
General and administrative	194,534	212,066	525,880
Distribution Depreciation	50.767	168,696	_
Depreciation	52,767	67,222	219,161
Total Operating Expenses	1,413,021	1,424,140	1,878,468
Operating income (loss)	(3,717)	(274,878)	(1,594,413)
Non-Operating Revenues (Expenses)			
Interest income	1,444	19,529	2,920
Interest expense	(5,723)	(3,590)	-,
Operating subsidies: Federal			171 (01
State	<del>-</del>	-	171,691 832,269
Local	-	-	83,894
Other income (expense)		157,450	6,518
Total Non-Operating Revenues (Expenses)	(4,279)	173,389	1,097,292
Income (Loss) Before Transfers	(7,996)	(101,489)	(497,121)
Transfers In (Out)	(1)	(,,,,)	
		_	3,526
Change in Net Assets	(7,996)	(101,489)	(493,595)
Net Assets, beginning of year	4,219,123	8,562,006	1,932,661
Net Assets, end of year	\$4,211,127	\$8,460,517	1,439,066

Non-Major Proprietary Funds Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

	Marina	Airport	Total
\$	259,274	\$ 102,544	\$ 3,175,033 29,406
	259,274	102,544	3,204,439
	177,543	59,374 43,347	3,512,220 975,827 168,696
	39,406	116,173	494,729
	216,949	218,894	5,151,472
	42,325	(116,350)	(1,947,033)
	2,474	1,093 (16,627)	27,460 (25,940)
	- -	116,410 895	288,101 833,164 83,894
	1,393	1,494	166,855
	3,867	103,265	1,373,534
	46,192	(13,085)	(573,499)
	-	(3,526)	-
	46,192	(16,611)	(573,499)
1	,252,680	3,148,199	19,114,669
\$1	,298,872	\$3,131,588	\$18,541,170

June 30, 2004	Municipal Sewage Treatment	Municipal Water	Harbor Transit
Cash Flows From Operating Activities Operating income (loss) Adjustments to reconcile operating income to net cash provided by (used for) operations:	\$ (3,717)	\$ (274,878) \$	(1,594,413)
Depreciation Miscellaneous income (expense) Changes in assets and liabilities:	52,767	67,222 157,450	219,161 6,518
Accounts receivable Due from other funds Due from other governments Inventory	(68,866) 43,994 -	128,663 681 616	19,186 271 85,241
Accounts payable Accrued liabilities Due to other funds Due to other governmental units Deferred revenue	(2,120) 3,024 6,310	323 (66,868) (29,739) (44,818)	572 (45,824) 4,365 (11,444) 4,818 54,763
Net Cash Provided by (Used for) Operating Activities	 31,392	(61,348)	(1,256,786)
Cash Flows From Noncapital Financing Activities Proceeds from operating grants and other Transfer in from other funds  Net Cash Provided by Non-Capital Financing	-		1,087,854 3,526
Activities Activities	-		1,091,380
Cash Flows From Capital and Related Financing Activities Principal payments on long-term debt Interest payments on long-term debt Purchase of capital assets Proceeds from sale of equipment	(30,000) (5,723) (131,772)	(7,110) (3,590) (243,671)	3,037
Net Cash Provided by (Used for) Capital and Related Financing Activities	(167,495)	(254,371)	3,037
Cash Flows From Investing Activities Interest received on investments	1,444	19,529	2,920
Net Increase (Decrease) in Cash	 (134,659)	(296,190)	(159,449)
Cash and Cash Equivalents, beginning of year	328,288	2,693,826	469,968
Cash and Cash Equivalents, end of year	\$ 193,629 \$	2,397,636 \$	310,519

## Non-Major Proprietary Funds Combining Statement of Cash Flows

_		Marina	Airport	Total
	\$	42,325	\$ (116,350) \$	(1,947,033)
		39,406 1,393	116,173 1,494	494,729 166,855
		(14,146) (17,643)	2,188 744 18,050	67,025 45,690 86,264
		(946) (1,318) 3,785	69 (30,885) (163) 383 12,029	964 (146,643) (23,831) (45,784) 16,847
		52 956	 	54,763
_		52,856	 3,732	(1,230,154)
		<u>-</u>	 117,305 (3,526)	1,205,159
			113,779	1,205,159
The same of the sa		(40,431)	(25,600) (16,627) (95,317)	(62,710) (25,940) (511,191) 3,037
		(40,431)	 (137,544)	(596,804)
_		2,474	1,093	27,460
		14,899	(18,940)	(594,339)
	_	404,984	238,979	4,136,045
	\$	419,883	\$ 220,039 \$	3,541,706

## Internal Service Funds Combining Balance Sheet

	Motor		Health	
June 30, 2004	Pool	Insurance	Benefits	Total
Assets				
Current Assets				
Cash and cash equivalents	\$1,163,988	\$402,577	\$105,208	\$1,671,773
Accounts receivable	-	2,526	114,426	116,952
Prepaid expenses	-	87,416	-	87,416
Due from other governments	1,167	-	-	1,167
Due from other funds	95,915	119,577	20,811	236,303
Inventory	10,167		-	10,167
<b>Total Current Assets</b>	1,271,237	612,096	240,445	2,123,778
Equipment, net of accumulated				
depreciation of \$1,190,684	1,579,210	-	-	1,579,210
Total Assets	2,850,447	612,096	240,445	3,702,988
Liabilities and Net Assets				
Liabilities				
Accounts payable	203,933	196	_	204,129
Accrued liabilities	13,388	_	86,751	100,139
Due to other funds	372	<b>-</b>	-	372
Total Liabilities	217,693	196	86,751	304,640
	211,033	170	00,731	304,040
Net Assets				
Invested in capital assets, net of				
related debt	1,579,210	-	-	1,579,210
Unreserved	1,053,544	611,900	153,694	1,819,138
Net Assets	\$2,632,754	\$611,900	\$153,694	\$3,398,348

# Internal Service Funds Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

	Motor		Health	
Year ended June 30, 2004	Pool	Insurance	Benefits	Total
O				
Operating Revenues	<b>Ф 711</b> 007	<b># 401</b> 050	<b>#0.05</b> 0.44.6	<b>#2.202.462</b>
Charges for services	\$ 711,097	\$421,950	\$2,259,416	\$3,392,463
Operating Expenses				
Wages and payroll benefits	110,872	_	_	110,872
Operating supplies	122,136	-	-	122,136
Insurance	31,787	381,775	1,908,414	2,321,976
Depreciation	232,891		-	232,891
Professional services	24,051	-	86,048	110,099
Miscellaneous	1,930	-		1,930
Total Operating Expenses	523,667	381,775	1,994,462	2,899,904
Operating income	187,430	40,175	264,954	492,559
Non-Operating Revenues (Expenses)				
Interest income	4,719	2,039	134	6,892
Other income (expense)	(36,823)	-	-	(36,823)
TAIN O C D				
Total Non-Operating Revenues (Expenses)	(32,104)	2,039	134	(20.021)
(Expenses)	(32,104)	2,039	134	(29,931)
Net Income	155,326	42,214	265,088	462,628
Net Assets, beginning of year	2,477,428	569,686	(111,394)	2,935,720
Net Assets, end of year	\$2,632,754	\$611,900	\$ 153,694	\$3,398,348
January Control of the Control of th	==,===,:= :	<del>+ 011,000</del>	Ψ 100,001	\$5,550,540

## Internal Service Funds Combining Statement of Cash Flows

Year ended June 30, 2004		Motor Pool	Insurance	Health Benefits		Total
Cash Flows From Operating Activities Operating income Adjustments to reconcile operating income to net cash provided by (used for) operations:	\$	187,430	\$ 40,175	\$ 264,954	\$	492,559
Loss on sale of assets Other income Depreciation Changes in assets and liabilities:		50,547 (36,823) 232,891	- - -	- - -		50,547 (36,823) 232,891
Accounts receivable Prepaid expenses Due from other governments Due from other funds		211 97,573	9,055 (87,416) - (14,984)	(66,913) - (20,811)		(57,858) (87,416) 211 61,778
Inventory Accounts payable Accrued liabilities Due to other funds		882 183,411 860 (26,174)	(12,248)	(8,176) 13,770 (142,920)		882 162,987 14,630 (169,094)
Net Cash Provided by (Used for) Operating Activities		690,808	(65,418)	39,904		665,294
Cash Flows From Capital and Related Financing Activities Purchase of fixed assets Proceeds from sale of assets		(202,033) 13,950	- -	-		(202,033) 13,950
Net Cash Used for Capital and Related Financing Activities		(188,083)	-	-		(188,083)
Cash Flows From Investing Activities Interest income		4,719	2,039	134		6,892
Increase (Decrease) in Cash		507,444	(63,379)	40,038		484,103
Cash, beginning of year		656,544	465,956	65,170		,187,670
Cash, end of year	\$1	,163,988	\$402,577	5 105,208	\$1	,671,773

## Agency Funds Combining Balance Sheet

June 30, 2004	Payroll	Tax Collection	Trust and Agency	Total
Assets				
Cash and cash equivalents	\$158,553	\$139,314	\$101,285	\$399,152
Due from other governments	9,887	- ·	-	9,887
Accounts receivable	17,310	_	-	17,310
Due from other funds	1,770	-	_	1,770
Total Assets	\$187,520	\$139,314	\$101,285	\$428,119
Liabilities				
Accounts payable	\$ 67,670	\$ 9,330	\$ 4,915	\$ 81,915
Trust deposits	-	_	96,370	96,370
Due to other funds	119,850	_	-	119,850
Due to other governments		129,984	_	129,984
Total Liabilities	\$187,520	\$139,314	\$101,285	\$428,119

Agency Funds Combining Statement of Changes in Assets and Liabilities

	Balance			Balance
	July 1, 2003	Increases	Decreases	June 30, 2004
Trust and Agency				
Assets				
Cash and cash equivalents	\$ 70,666	\$ 126,024	\$ 95,405	\$101,285
Accounts receivable	575	6,570	7,145	-
	\$ 71,241	\$ 132,594	\$ 102,550	\$101,285
		<u> </u>		
Liabilities				
Accounts payable	\$ 5,084	\$ 12,474	\$ 12,643	\$ 4,915
Trust deposits	66,157	75,064	44,851	96,370
	\$ 71,241	\$ 87,538	\$ 57,494	\$101,285
Tax Collection				
Assets				
Cash and cash equivalents	\$168,535	\$17,506,442	\$17,535,663	\$139,314
Liabilities				
Accounts payable	\$ 9,151	\$17,540,567	\$17,540,388	\$ 9,330
Due to other governments	134,721	156,171	160,908	129,984
Due to other funds	24,663	5,003,274	5,027,937	-
	\$ 168,535	\$22,700,012	\$22,729,233	\$139,314

This Statement Covers More Than One Page.

# Agency Funds Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Payroll				
Assets				
Cash and cash equivalents	\$298,142	\$12,134,110	\$12,273,699	\$158,553
Due from other governments	15,058	50,275	55,446	9,887
Accounts receivable	10,322	212,617	205,629	17,310
Due from other funds	269	1,804	303	1,770
	\$323,791	\$12,398,806	\$12,535,077	\$187,520
Liabilities				
Accounts payable	\$ 51,740	\$14,529,928	\$14,513,998	\$ 67,670
Due to other governments	30	-	30	Ψ 07,070
Due to other funds	272,021	120,724	272,895	119,850
	\$323,791	\$14,650,652	\$14,786,923	\$187,520
Totals - All Agency Funds				
Assets				
Cash and cash equivalents	\$537,343	\$29,766,576	\$29,904,767	\$399,152
Due from other governments	15,058	50,275	55,446	9,887
Accounts receivable	10,897	219,187	212,774	17,310
Due from other funds	269	1,804	303	1,770
	\$ 563,567	\$30,037,842	\$30,173,290	\$428,119
Liabilities				
Accounts payable	¢ 65 006	\$22.002.040	\$22 067 040	<b>ሮ</b> 01 01 <i>5</i>
Accounts payable	\$ 65,986	\$32,082,969	\$32,067,040	\$ 81,915
Trust deposits  Due to other governments	66,157 134,751	75,064	44,851	96,370
Due to other funds	,	156,171	160,938	129,984
Due to other funds	296,673	5,123,998	5,300,821	119,850
	\$563,567	\$37,438,202	\$37,573,650	\$428,119

## **BDO Seidman, LLP**Accountants and Consultants

99 Monroe Avenue NW, Suite 800 Grand Rapids, Michigan 49503-2654 Telephone: (616) 774-7000 Fax: (616) 776-3680

To the Honorable Mayor and City Council City of Grand Haven, Michigan

During the course of our audit of the financial statements of the City of Grand Haven, Michigan as of June 30, 2004 and for the year then ended, we observed the City's significant accounting policies and procedures and certain administrative and financial practices.

As a result of our observations, we have prepared for management's review and evaluation, the enclosed memorandum containing suggestions regarding internal control, financial and administrative practices of the City of Grand Haven, Michigan.

Matters which related to internal accounting control were not of a magnitude that would effect the presentation of the financial statements.

We appreciate the outstanding cooperation from management and the staff of the City of Grand Haven, Michigan that our personnel received during the audit.

Grand Rapids, Michigan

DDO Seisma, LLP

October 6, 2004

Memorandum of Recommendations

Year Ended June 30, 2004

## Memorandum of Recommendations

### Fraud Prevention Policy

The American Institute of Certified Public Accountants (AICPA) recently issued Statement on Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit. This statement requires the independent auditor to perform additional procedures that are intended to reduce the risk that material fraud may go undetected. You should be aware that, while these additional procedures may reduce the risk of material undetected fraud, they do not eliminate risk. It is management's responsibility to design and implement programs and controls to prevent, deter and detect fraud. During our audit of the City of Grand Haven, Michigan (City), we noted that there was no documented fraud prevention policy in place.

#### Recommendation

We recommend that management establish a written fraud prevention policy. We also recommend that management review current policies and procedures to determine where fraud risk may exist and establish appropriate controls so that opportunities to commit fraud can be significantly reduced.

### Management Response

A fraud prevention policy is currently being drafted, including a process for reporting alleged fraudulent activity. A review of current fraud related policies and procedures is ongoing annually, as well.

## Information Technology - Policies and Procedures Manual

During our review of the information technology system, we noted that the City currently does not have a formal information technology policy and procedures manual. In addition, there currently is no acceptable use policy form that employees must sign. The lack of a written policies and procedures manual may result in the City's information technology resources being used in an unacceptable manner.

### Recommendation

We recommend that the City develop a written information technology policy and procedures manual that outlines the acceptable use for the City's information technology system.

## Memorandum of Recommendations

### Management Response

An information technology policies and procedures manual is being developed and will be implemented by June 2005. Currently, "flash" screens upon computer startup include the phrase "for official use only."

## Information Technology - Disaster Recovery Plan

During our review of the information technology system, we noted that the City currently does not have a written disaster recovery plan. The lack of a written disaster recovery plan may result in the City's information technology resources being at risk in the event of a system crash.

### Recommendation

We recommend that the City develop a written disaster recovery plan that outlines the City's plan for data recovery in the event of a system crash.

### Management Response

A written plan is anticipated by June 2005. In the meantime, backup tapes are stored in an office separate from the computer room. The most recent tapes are taken off site overnight and over the weekend by the Finance Director.

The AS400 is backed up daily Monday thru Thursday (data) and Friday (data and programming). The base operating system is backed up only when system improvements are made.

The file server systems are backed up daily Monday thru Friday (data and programming). The base operating systems are backed up only when system improvements are made.

Assuming a system failure, reinstatement of backups after installation of operating systems will bring all data and programming to the backed up levels, minimizing loss. (A similar backup plan in a different community allowed for complete system restoration within 36 hours of system failure).

## Memorandum of Recommendations

Hardware replacement upon disaster will be determined in the recovery plan. Ideally the plan will describe the action path (with vendor information) toward system rebuild in the event of catastrophic failure.

The Network Manager has provided the Finance Director (his supervisor) with some systems support and administrative capacity in the Network Manager's absence. The Finance Department is considering additional technology support through additional staff or system administration firms.

### Cash - Pooled Bank Account

During our year-end audit of the City's records, we noted that the City has numerous bank accounts in which cash balances are maintained. Each fund of the City has at least one bank account that requires numerous cash transfers throughout the year and must be reconciled on a monthly basis. The numerous cash transfers increase the potential that errors or misstatements may occur and not be detected timely.

### Recommendation

We recommend that the City consider utilizing a pooled bank account for the City's cash account. A pooled bank account would eliminate the need for transfers between bank accounts and reduce the potential for errors and misstatements. In addition, the City would be required to reconcile only one cash account per month.

### Management Response

A pooled cash account is scheduled for implementation in the fall of 2004. A meeting with the bank and City audit staff was held September 24, 2004 to consider what accounts may be pooled and benefits thereof. The New World software system appears to provide enough information so that a pooled system may be feasible once again. Finance staff will work with Treasury staff to coordinate and confirm the appropriate process in coming months. Specific funds will not be included in such pooling, notably the Northwest Ottawa Water Plant Fund, the Grand Haven-Spring Lake Sewer Authority Fund, the Harbor Transit Fund and the Ottawa County Central Dispatch Authority Fund, as these involve non-City elements and administrative board preferences.

## Memorandum of Recommendations

### **Infrastructure Assets**

The City has implemented the reporting requirements of Governmental Accounting Standards Board Statement 34 (GASB 34) effective July 1, 2002. In accordance with GASB 34, prospective reporting of general infrastructure assets of the City is required at the date of implementation and retroactive reporting is encouraged but not required.

GASB 34 allows an additional four years for retroactive recording of general infrastructure assets. As allowed by GASB 34, the City has not retroactively reported all of its general infrastructure assets in the financial statements as of June 30, 2004.

#### Recommendation

The City should develop a plan for insuring that the requirements of GASB 34 relating to the retroactive reporting of general infrastructure assets are met.

### Management Response

The GASB 34 infrastructure assets project is proceeding with the installation of integrated fixed asset software. This is an ongoing priority which will be met within the next year, by June 30, 2005, one year in advance of the GASB 34 requirement.